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## Taxes and taxation

The abstract of lectures

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Currently, the tax literacy is highly relevant to all sectors of society, as virtually the entire populations in certain intervals are taxpayers. There are several opinions about the impact of taxes on the economy of a particular country, starting with the theoretical and practical to. Many scientists agree that the various taxes are a very important tool in the economic life of any country. The tax is not only important, but also the life-determining component of modern economies. In this regard, the present lecture notes on the subject of "Taxes and taxation" is very timely, also because it was written in English, since knowledge of foreign languages is a priority for students. This lecture notes compiled for all technical areas. It presents the basic provisions of tax in the Republic of Uzbekistan. There are developed 9 Topics: "Economic Content taxes", "Income tax for legal entities", "Simplified tax system for micro firms and small enterprises", "The tax on personal income", "Value-added tax", "The excise tax", "Property tax", "Land tax", "The tax for the use of mineral resources", "Tax on the use of water resources". Each topic presents a detailed theoretical material and examples, and problems for solutions could be used by students of all technical areas of undergraduate.

Lectures on the subject of "Taxes and taxation" drafted in accordance with the curriculum for all undergraduate engineering fields of study in higher educational institutions.

This summary of lectures designed for University students who want to learn English taxes, as well as for those who want to expand and enhance their knowledge on taxation in the Republic of Uzbekistan.

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## INTRODUCTION

There are several opinions about the impact of taxes on the economy of a particular country which range from the theoretical to the populist.

Many scientists agree that the various taxes are a very important tool in the economic life of any country. Tax is not only important, but also life-determining component of modern economies. Country - oriented market economy is closely monitoring the tax policy and constantly adjusts it in line with the current state of affairs in the world economy.

What is a tax? According to textbooks taxes - are compulsory payments levied by the state to individuals and legal entities. Taxes are divided into direct which leave on income and property, and indirect, increasing prices of commodities. Developed countries and developing use taxation as one of the main items of government revenue. Thus the government is interested to collect as much tax to supplement the budget and follow-up programs themselves. However, rising of taxes is not the rule.

As can be seen in the modern world there is an outgrown tax textbook definition and represents a certain indicator of socio-economic relations in the country.

In January 2005, the President issued a decree "On the preparation of a new edition of the Tax Code of the Republic of Uzbekistan." Before its developers there were a number of tasks. Among them:

- Reducing the tax burden on economic entities;
- Alignment of taxation conditions for all taxpayers, primarily through the elimination of unjustified benefits;
- Strengthen the incentive role of taxes;
- Provision of a direct action of the Tax Code;
- Ensuring the stability of the tax system;
- Simplification of the tax system;
- Improvement of the tax administration system.

# **Lecture 1. ECONOMIC CONTENT OF TAXES AND THEIR NECESSITY**

## **Plan**

1. Fundamentals of building taxes.
2. Taxes can be classified according to various criteria.
3. Tax Code of the Republic of Uzbekistan, the categorized local taxes.
4. Tax functions.
5. Basic principles of the tax system.
6. Principle of cost.

Submission of tax has changed for centuries. With the development and improvement of theories of taxation it is undergoing an evolution of views on the interpretation of the term "tax". Scientists and public figures constantly attempted to give a definition of the tax not only from the economic perspective, but also from a legal point of view.

Thus, the famous British economist Adam Smith more than 200 years ago defined tax burden of the state by law, which provides for its size and method of payment.

In the theory of tax at the time the opinion prevailed on taxes only as a purely fiscal instrument. Widely known statement of the English economist David Ricardo in the House of Commons in 1819, where he uttered the famous phrase: "The best tax is the lowest tax."

In the first half of the XIX century Swiss economist Sismondi J. formulated the theory of the tax as a "theory of pleasure." Tax - the victim and at the same time benefit if the services of the state at the expense of the victim bring us benefits. Citizens need to look at taxes as remuneration for government protection of their person and property.

At the beginning of XX century Italian economist F. Nitti offers the clearest definition of the role of taxes in the system of state influence on the development of the national market. There are indivisible public services, such as internal peace and external security, justice, public hygiene and protection of the territory. Since in this case unacceptable duties, remuneration for special services is divisible, it is necessary that the total expenditure covered by taxes. And further: "tax is that part of wealth which citizens give the state and local authorities in order to satisfy the collective needs"

Much later, scientists, economists and tax practice itself has been proven that tax is not just a fiscal instrument; it is also a powerful tool for economic policy to reflect their priorities, instrument of economic

and social reforms. Thus, for example , gradually reducing taxes , the state in the second half of XX century tried to stimulate demand, increase economic growth, encourage entrepreneurs to invest, increasing the same taxes , governing structures to weaken or inflation, stabilize the economic cycle. To encourage entrepreneurs to switch to more advanced methods of production, or more productive forms of management, economists recommended that the State should create a parallel for companies and individuals that have achieved some success in these areas, known as tax breaks. Modern definitions of tax emphasize the coercive nature of taxation and the lack of a direct link between the citizen and the tax benefit.

If you look from the standpoint of law, the tax is none other than the removal of the property from the taxpayer and its transfer to the state treasury. That is, the tax is not only financial, but also a legal category and the difficulty of understanding the nature of the tax due to the fact that it should be considered at the same time as the economic, commercial and political phenomenon of reality.

There are many definitions of the tax, but none of them recognized the ideal, and in the legislation of Uzbekistan, it is generally non-existent.

Taxes, unlike charges, fees and charges, are universal and are charged a permanent basis. Economic content of taxes is that they are a part of the relations of production to withdraw a certain percentage of income from business entities, citizens that are accumulated by the state to carry out its functions and objectives.

### **Fundamentals of building tax**

Currently, there is a continuous search for an effective model system of taxation, which is associated with the processes of decentralization, privatization and privatization emergence of new organizational structures of market.

This period is accompanied by profound changes in the system of economic organization, forms and methods of management. From minor economic institute they become a powerful lever effect on state economic life economic behavior of enterprises, organizations and citizens.

In this connection, it took a radical restructuring of economic mechanisms, including financial and tax levers. In this respect 1991-1992 became the critical years, when it was taken some bold steps to

decentralize the financial banking, fiscal system and the transition to economic forms of relationships in the economy.

With the introduction of new forms of management Uzbekistan was reformed tax legislation, which is reflected in the following basic laws of the Republic of Uzbekistan, which were adopted on February 15, 1991:

- The law "On taxes from enterprises, associations and organizations";
- Law "On Personal Income Tax citizens of the Republic of Uzbekistan, foreign citizens and stateless persons."

In 1993, it was adopted the Law "On local taxes in the Republic of Uzbekistan."

On April 24, 1997 it was adopted by the Tax Code which entered into force on 1 January 1998. In January 2005, the President issued a decree "On the preparation of a new edition of the Tax Code of the Republic of Uzbekistan." Before its developers there were a number of tasks. Among them:

- Reducing the tax burden on economic entities;
- Alignment of taxation conditions for all taxpayers, primarily through the elimination of unjustified benefits;
- Strengthen the incentive role of taxes;
- Provision of a direct action of the Tax Code;
- Ensuring the stability of the tax system;
- Simplification of the tax system;
- Improvement of the tax administration system.

Collection of taxes, fees and other mandatory payments to the budget established by the state forms and methods of their construction form the tax system of the state.

Tax systems may be quite complex model, as there are many tax payers there, methods of tax collection, tax benefits.

But despite the differences in the tax basis of their construction there are the same constituent elements. The elements of the tax include: object and subject of taxation, accounting method of the tax base, the tax rate, the order of calculation and payment deadlines, methods of collection, reporting period, tax incentives, etc.

Subjects of taxation refer to taxpayers - individuals and legal entities, who are entrusted with a legal obligation to pay taxes, fees and charges. Under the legal entities for tax purposes means all kinds of businesses, associations and organizations (including their subdivisions),

owning, economic management or operational management of the property and to meet its obligations with this property, as well as having its own balance and current account.

Individuals are recognized as citizens of the Republic of Uzbekistan and other states, as well as stateless persons having the object of taxation.

Economic relations between the taxpayer and the state are determined by the principle of permanent residence.

The objects of taxation and objects related to taxation are the property and activities with the presence of which the taxpayer tax liability arises.

In other words, the object of taxation is a legal fact (actions of the taxpayer or the state of his property), the presence of which is the basis of tax liability. These include: the turnover in sales of goods (works, services), property, transaction sales, income securities, etc. Without the object of taxation of the taxpayer there cannot be a tax obligation.

In theoretical terms the objects of taxation can be divided into the following types:

- Property rights (right to property) and moral (right of use);
- Action (activity) of the subject (sales, import of goods);
- The operating results (profit, revenue).

Object of taxation and objects related to taxation, for each type of tax and other obligatory payments to the budget is determined in accordance with the Tax Code. For example, the object of taxation on value added tax is a sales turnover and imports of goods (works, services).

The tax base is the cost, or other physical characteristics of the object of taxation and objects related to taxation on the basis of which to determine the amount of taxes and other obligatory payments to be paid to the budget.

For example, the tax base value added expressed in monetary terms, and the tax base on land tax is the area of land, the tax base is expressed in hectares and square meters.

Tax base is distinguished with cost parameters (the amount of income) and physical parameters (fixed tax for taxation). To determine the correct tax liability inception it is important method for determining the tax base. There are two main methods - cash and accrual. When you use the cash method income it means all amounts actually received by the taxpayer in a particular period, and costs - actual amounts paid. Cash

method of accounting for income is almost always used in the retail industry - there just the same as the time of the payment.

### **Tax benefits**

Benefits are granted to certain categories of taxpayers provided by the legislation advantages over other taxpayers, including the ability to not pay taxes

Benefits for different taxes have long been used to promote the priorities of the economy. Thus, even Amir Temur in the 14th century used the tax incentives to encourage development of new lands. He developed the following system; farmer who developed and irrigated land uncultivated, he made it stands or made unfit for planting derelict land was exempt from taxes the first year, second year, he could make as much as he pleases, and in the third year, he obeyed general ruling on taxes.

Setting benefits, the state expresses its priorities in the development of the most important, with the state's point of view, industries and sectors. However, the establishment of the so-called "individual" tax benefits against the principles of market economy and tax policy. Personal allowances - a precedent for further distribution, they erode the tax system, depriving tax payment mandatory.

Tax incentives are divided into benefits for the subject (when a particular taxpayer bear benefits) and privilege on the object (when the tax under its specific object) taxation.

By the nature of accounting for tax benefits can be divided into three categories:

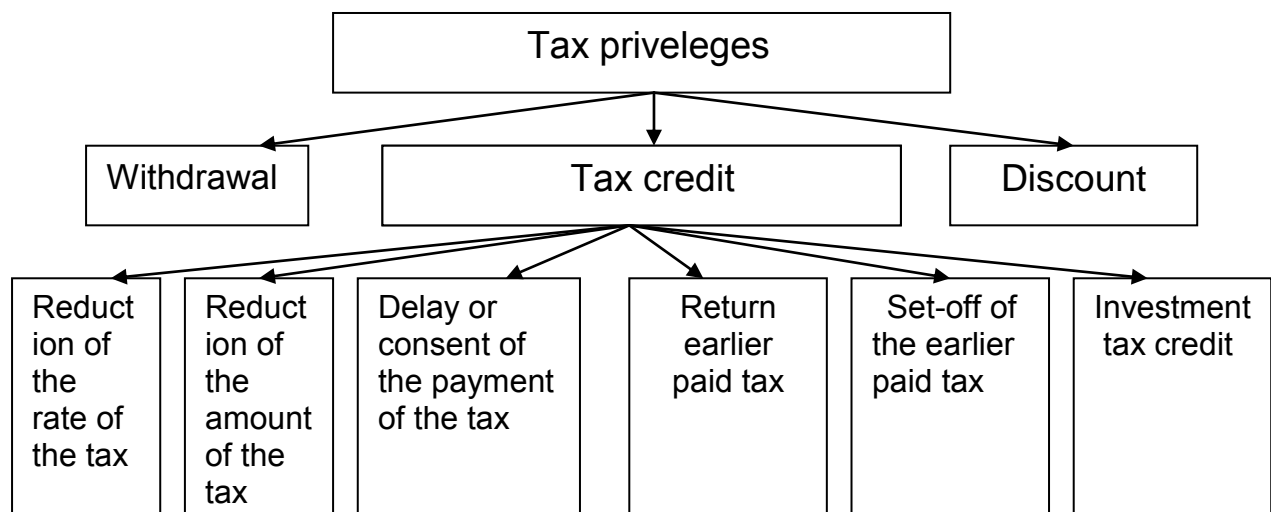
1. Permanent benefits (non-target)
2. Temporary benefits (non-target)
3. Targeted benefits (may be submitted on an ongoing basis and at the time).

Permanent untargeted benefits are presented without any conditions and are not reflected in the accounting records. Such benefits do not affect the entity's financial statements. Temporary untargeted benefits are limited to certain length of time and, most often, have a constraint: subject to preferences, the entity shall continue to operate for at least one year from the date of termination of benefits (or other limitation), otherwise the application of benefits will be found to be unlawful.

In this case, no effect on the balance sheet and income statement of the enterprise benefits do not have time. Modern tax benefits taxable



entity can also be divided into three groups; exemptions, rebates, tax credits



Exemptions - this tax credit aimed at removing from taxation of individual objects (objects) of taxation. For example, they are not taxed individual property - buildings, facilities and structures owned by the participants and the guerrilla war of 1941-1945.

Discounts - it benefits aimed at reducing the tax base. For example, taxable income (profit) tax is reduced by the amount of their expenditure, encouraged by the state and society, such as contributions to environmental, health and charities, cultural institutions, public education, health, labor and social protection of population, physical culture, sports and others.

Tax credit - it benefits aimed at reducing the tax rate or the amount of tax payable to the budget (it is called the sum of the accountant or tax salary). The tax credit may be granted on a permanent or on a temporary basis. Tax credits, depending on the form of the provision of benefits are divided into the following types.

1. Reduced tax rate - for example, the tax rate on income for newly created enterprises (except for trading, brokering, supply and procurement activities) is in the first year since inception (registration) and twenty-five percent in the second year - fifty percent of the installed rates.
2. Reducing the amount of tax payable to the budget (the sum of the accountant). For example, for businesses which employ more than three (3) percent of the total number of disabled workers, the amount of tax on income (profit) decreases the rate of 1 (one) percent reduction of tax on

income (profit) for every percentage of employed persons with disabilities over established norm.

Full tax exemption for a certain period has been called the tax holiday.

### 3. Deferral or installment payment of tax.

In Uzbekistan, the right to provide payment deferrals and installment vested mainly customs authorities in respect of taxes on imports of goods (VAT, customs duty, excise tax) when their delivery fee of 50% of the refinancing rate.

4. Refund of previously paid tax or part of the tax (tax amnesty) .In Uzbekistan, almost never used.

5. Previously paid tax. Used in order to avoid double taxation, for example, the amount paid outside Uzbekistan income came off in the payment of tax on income (profit) in the Republic of Uzbekistan in accordance and international treaties of the Republic of Uzbekistan. The amount counted amount may not exceed the amount income (profit) to be paid in the Republic of Uzbekistan on income (profit) obtained abroad.

6. The investment tax credit is defined as the change in terms of tax liabilities for which the taxpayer for cause provides an opportunity for a certain period to reduce the tax due from it to payments subsequent gradual payment of them.

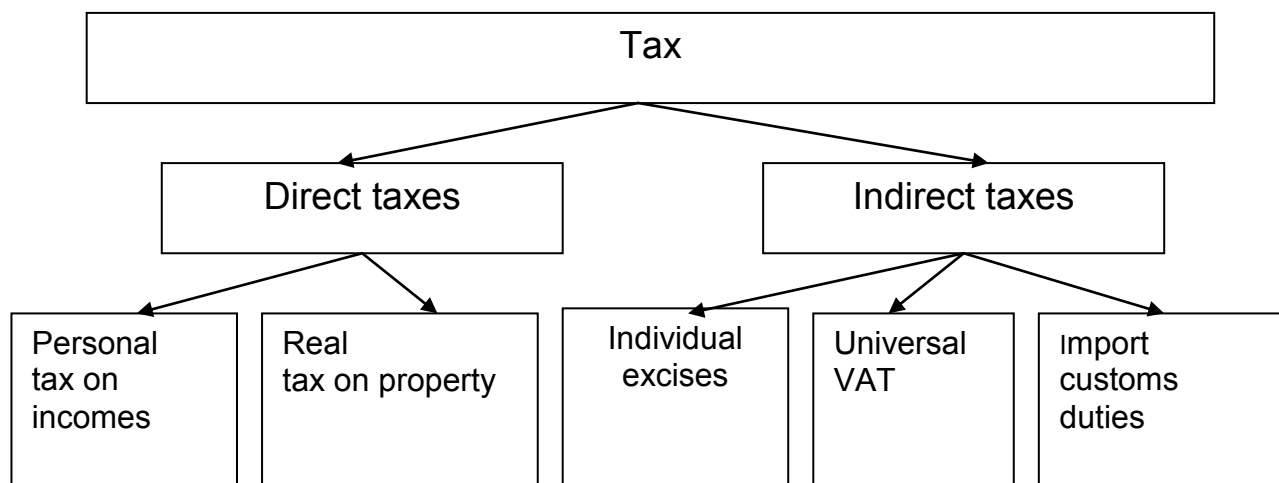
It should be noted - the taxpayer when given privileges of all three types (groups) need to be applied in the following sequence:

1. Applied first benefits in the form of withdrawal,
2. Then - benefits in the form of discounts,
3. And only then - the tax credit.

### **Tax classification**

Taxes can be classified according to various criteria.

By the object of taxation in the relationship of the payer and the state taxes are divided into direct and indirect. First levied in the acquisition and accumulation of wealth, the second - in the process of their spending . It is assumed that direct taxes are levied on the income of individuals and businesses, and indirect - in other links of the tax system and are designed for translation into the final carrier of the tax burden - buyers.



Direct taxes are paid directly to the subject of the tax, and often directly proportional to the ability to pay. Examples of direct taxes - income tax, property tax, i.e. taxes paid on the income or property of the taxpayer. Direct taxes, in turn, are divided into personal and real.

By the nature of accounting for taxes are distinguished:

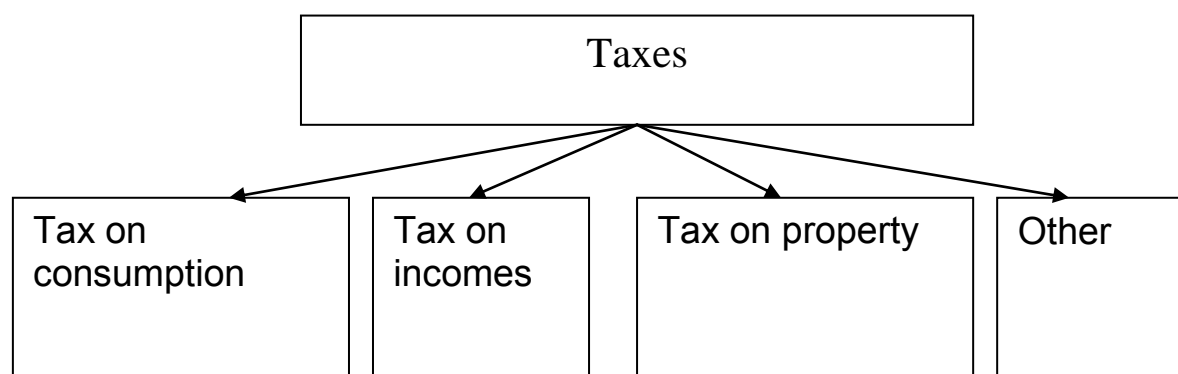
- Included in cost (land tax, property tax);
- Included in the price of goods (VAT, excise);
- Paid out of profits (income tax, tax on infrastructure development);
- Withheld from employee income (income tax) .

In its economic essence all taxes are divided into three groups:

I - on consumption taxes (indirect)

II - taxes on income,

III - property taxes.



Taxes Group I - consumption taxes (indirect taxes) are installed as extra cost or rate and not directly related to the taxpayer's income or property. To this group belong traditionally tax value added tax, excise tax, import duties, and not typical of Uzbekistan VAT and sales tax, however, it should be noted that in the legislation of Uzbekistan there can be found another tax that applies to this group: a tax on individuals for consumption of gasoline, diesel and natural gas for vehicles. In the Tax Code of the Republic of Uzbekistan it is categorized as local tax.

## **Tax functions**

Essence of taxes shown in their functions, i.e. the main lines of the impact of taxes on the development of society and the state.

Taxes are used by all countries with a market economy as a method of direct influence on the budgetary relations and indirect (via incentives and sanctions) impact on producers of goods and services.

State through taxes solves several problems, including:

- Achieves a relative balance of social needs and the resources needed to meet them;
- Ensures the rational use of natural resources, in particular through the introduction of fines and other restrictions on the transfer of hazardous industries;
- Solves the economic, social and many other social problems.

Taxes perform the following functions: 1) social 2) fiscal (distribution) 3) regulating 4) control 5) integrating. Historically, the first is the fiscal function of taxes, providing revenues to the state budget. This is the main function of taxes, because it is at their expense generated revenues in the state budget. All other functions can be called a tax derived from the fiscal.

Social (redistributive) function of taxes is to redistribute the income between different social categories of the population and are sold through unequal taxation of different categories of the population, as well as different amounts of income.

With this function, there is a transfer of funds in favor of the weaker and vulnerable populations by laying the tax burden on stronger sectors of society. Examples of implementing social functions are a progressive scale of personal income tax, income tax incentives for socially vulnerable segments of the population, the excise tax on luxury items, etc. In many countries, there is a similar approach to the taxation of individuals, as in Uzbekistan, where the higher income and taxed higher rates. And in some socially-oriented countries (Sweden, Norway and Switzerland) is almost officially recognized that the curtains are highly profitable segment of the population pay less profitable for social stability.

The essence of the regulatory function is also that the taxes levied on resources allocated to consumption, and are exempt from the resources allocated to the development of production.

To use this feature characteristic of three components:

Stimulating - manifested through a system of benefits for businesses and activities that are considered a priority for the state and useful or important to society (e.g., agricultural production, or export of goods for foreign currency);

Bounding (disincentives) - aims through increasing tax rates to limit the development of production processes, activities that the state does not consider useful to society (e.g., gambling, imports of certain categories of goods);

Reproduction - is designed to accumulate funds for the restoration of resources used (benefits for the use of funds for the expansion, modernization of production);

The following function - control - allows the state to monitor the timeliness and completeness of the revenues of tax payments, compare them with the value of the financial resources. Through this function is determined by the need to reform the tax system and fiscal policy.

At the end of the XX century taxes within a mechanism of state regulation of the market economy acquired a qualitatively new feature - integrating related to regulation of foreign trade and foreign economic relations.

All functions are intertwined and taxes do not exist in pure form apart from others, and sometimes in conflict with each other. For example, the fiscal function of the tax comes into conflict with the social, since the latter reduces the revenue. With the help of the regulatory function of the state taxes can create more or less favorable and competitive conditions for certain business areas. But we must not forget that this can happen by suppression tax and other areas inevitably violated freedom of competition and the principle of justice.

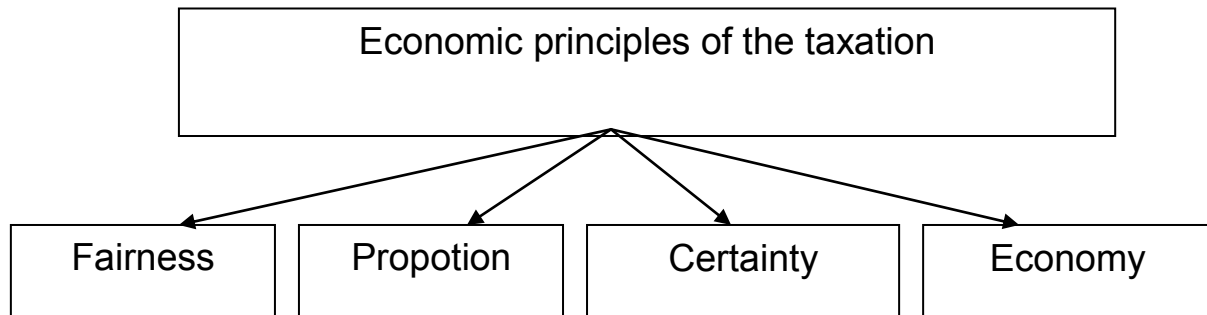
### **Basic principles of the tax system**

Tax systems in different countries differ from each other, it is natural since the tax systems evolved and continue to take shape under the influence of different economic, political and social conditions. However, any tax system must meet the general requirements.

First economic principles of taxation were developed classic of English economic theory of Adam Smith. These principles are inherent tax as an objective economic category, regardless of the particular state and time, so they are called "fundamental" "classical". A Smith in his "Inquiry into the Nature and Causes of the Wealth of Nations" mark the five principles of taxation: 1) the principle of economic freedom and

independence, 2) the principle of justice, 3) the principle of certainty, 4) the principle of handiness, 5) the principle of economy.

However, for more than two hundred years of development of the society system of principles of Adam Smith has undergone certain changes, and now they can be summarized as follows.



### 1. The principle of justice (equality).

Distribution of the tax burden should be equal. According to this principle, everyone should participate in financing government expenditure commensurate with their incomes and opportunities. That is, the subjects of the state should pay taxes in proportion to the income received. The principle of equality and justice - the main building at the tax system. There are two approaches to implement it:

- The concept of "well-being received" based on the principle of benefit;
- The concept of "donations", based on the principle of ability to pay.

### 2 .The principle of proportionality.

This principle is in the ratio of filling the budget and adverse tax consequences for the taxpayer. This is the principle of economic balance between the interests of the taxpayer and the state treasury. According to this principle , the task of the legislator on the basis of economic proposals to establish a system of taxation that would not suppress economic activity of the taxpayer and at the same time provide the necessary level of tax revenue . Amir Temur wrote: "When collecting taxes you need to beware of burdening the people with taxes or ravage the province because people ruin leads the impoverishment of the public treasury, and the failure of the Treasury has the effect of scattering of the military forces, which in turn leads to a weakening of power."

Conventional point in taxation, which achieves optimal for taxpayers and the state treasury of GNP to withdraw the budget is called "tax limit". Shift a certain point in the direction of increasing generates conflicting situations which are manifestations of political conflicts ,

insubordination taxpayers to the tax authorities , capital flight , massive tax evasion , migration , etc.

The level of tax limit may be increased, as a rule, only in emergencies (e.g. war or great damage due to natural disasters).

3. Certainty principle (best interests of the taxpayer and opportunities).

According to this principle, the terms and procedures of tax must be pre-defined and known to the payer, another manifestation of this principle is the awareness of the taxpayer - all changes in tax legislation must be informed in advance. This principle also requires ease of calculation and payment of tax.

4. Principle of cost.

Costs of tax collection should be minimal - "every tax should be so constituted that he removed from his pocket payer maybe less beyond what enters the offices of the state" (Adam Smith). This principle means that the amount of fees for individual income tax should exceed the cost of its maintenance, and several times.

5. The principle of unity of the tax system.

This principle is enshrined in the Constitution of the Republic of Uzbekistan, according to Art. 123 that "the territory of the Republic of Uzbekistan has a unified tax system" that does not allow its violation by introducing regional taxes that may restrict the free movement of goods, services and financial resources.

6. The principle of mobility (flexibility).

The essence of this principle is that the tax burden and tax relations can be quickly modified to meet the objective needs of the state. For example, the use of protective customs duties when import any goods in Uzbekistan able to harm domestic producers and the state's economy as a whole.

7. The principle of stability.

Under the principle of stability of the tax system should be valid for a number of years until the tax reform. Thus, the tax reform should be carried out only in exceptional cases and in the correct order. In most foreign countries there has been the long practice, according to which any changes and additions to tax laws can only enter into force from the beginning of the new fiscal year.

8. The principle of multiplicity of taxes.

This principle includes several aspects, the most important of which is that the state tax system should be based on a set of differentiated tax and objects of taxation. Combinations of various taxes and taxable

objects should form a system that would meet the demand redistribution of the tax burden on the taxpayers.

Theory of a single tax payment repeatedly has adopted social and political reformers, and this theory has largely regards the socio - political issues than tax. Various proponents of this theory were flat tax as a panacea for all ills. It was alleged that after the establishment of the tax there will be eliminated poverty, raise wages in all industries will increase production, etc. However, the practice of taxation in different countries repeatedly proved the inadequacy of that approach.

Multiplicity of taxes allows you to create the preconditions for a flexible tax policy, increasingly catch solvency taxpayers align and make the overall tax burden psychologically less noticeable.

## **Lecture 2. INCOME TAX (EXPENSE) LEGAL ENTITIES**

1. Income tax rate.
2. The structure and composition of the total annual income of legal entities.
3. Exemptions from payment of tax on income (profit) tax.
4. Mechanism for the calculation and payment deadlines for income tax.

Considering the evolution of the system of taxation of income (profit) entities in Uzbekistan since 1991 and to this day, we can note the following main provisions:

- accepted accounting income on an accrual basis was introduced;
- tax rate reduced from 38 % to 10% ;
- taxpayers got the right of self-selection methods of accounting and taxation;
- the procedure for taxation of foreign legal entities and their classification on the grounds of residency and permanent establishment ;
- introduced the concept of "taxpayer identification number (TIN)", "leasing", "doubtful debts" and much more .

Payers of income (profit)

Payment of tax on the income of legal persons governed by the Tax Code of the Republic of Uzbekistan, the Regulations "On the procedure of calculation and payment of the budget income (profit) tax" (№ 1109 dated March 13, 2002) and other regulatory documents.

Payers canopy income (profit) are legal persons having taxable income (profit) for the financial year. Foreign legal entities do not pay this tax, as well as legal entities, for which there is a special taxation;



- ☐ micro and small enterprises payers of single tax payment;
- ☐ enterprise trade and catering, agricultural producers, legal entities engaged in entrepreneurial activities only, which established the payment of a fixed tax and legal entities engaged in the organization of lotteries , sweepstakes and other risk-based games that pay a flat tax on gross revenue - by main activity .

### **Income tax rate**

1. The marginal rate of 35 (thirty five) percent of taxable income (profit) tax received from auctions and organization of entertainment events by attracting businesses and individuals (including non-residents), licensed to practice concert activity.
2. Accordance with the established tax rate on income (profit) of the legal entity (including foreign-invested enterprises) - 10 percent.
3. Enterprise specialized in the production of goods for children, arts and crafts products, and feminine hygiene products, pay to the budget the tax on income (profit) at the rate of ten (10) percent.
4. To these enterprises include enterprises specialized in production volume which children's goods, toys, arts and crafts , as well as feminine hygiene products constitute sixty (60) percent or more.

List of goods for children and feminine hygiene approved by the Cabinet of Ministers of the Republic of Uzbekistan dated 27.11.2015 , № 276- p

5. For exporters, whose share of exports of goods (works, services) of own production for hard currency is:
  - ☐ 15 to 30 percent of total sales - tax rate is reduced by 30%;
  - ☐ by 30 percent or more of total sales - tax rate is reduced by 2 times.

This exemption was introduced on January 1, 2016, pursuant to the Resolution of the Republic of Uzbekistan № 490 and does not apply to commercial and intermediary businesses, as well as manufacturing companies that export commodities.

6. Dividends and interest paid to legal entities are subject to withholding taxes at a rate of 10 percent.

Under the dividend for tax purposes meant income earned on shares and from equity participation in the authorized capital of businesses.

The object of taxation on income (profit) is:

Taxable income (profit) , calculated as the difference between the gross income and deductions determined in accordance with the Tax Code of the Republic of Uzbekistan and the Regulation "On the composition of

costs for the production and sale of goods ( works, services) and on the formation of financial results " (hereinafter - the Regulation on part of the cost ) , adjusted for the amount of expenses as defined in Annexes number 1 and number 2 of the Regulations .

In a formula taxable income (GCD ) can be represented as follows:  
$$\text{GCD} = \text{Income} - \text{Expenditure}$$
Contributions, shares and other financial targets investments in the authorized fund (capital) are combined to solve common problems, are not income of the legal entity created specifically to address these problems, and are not subject to taxation.

### **The structure and composition of the total annual income of legal entities**

Comprehensive income includes money or other funds for shipped goods, works, services rendered and other operations receivable (received) a legal person, or received them for free. The aggregate annual income includes:

1) Revenues from sales of goods (works, services);

Under the revenue from sale of goods (works, services) refers to the sum of:

specified in the settlement documents , which filed for goods shipped ;

acts specified in the executed works , confirmed by the customer;

specified in the documents confirming the provision of services ,

For purchasing, procurement, supply and marketing companies, payers of income (profit) under the sales proceeds for tax purposes will be the difference between the sale and purchase price of goods sold. For companies receiving income from agency (as remuneration committees, interest) under the revenue mean the sum received commissions (percent) for all transactions effected in the taxable period.

The starting point for determining the time of recording of income from sales stands conception of law, according to which self-realization - this is the moment of transfer of ownership on the value, and so often, the income from the sale occurs when goods are shipped.

In the case where the selling price of the product includes a certain amount of after-sales service, this amount should be deferred and recognized as income from business operating activities for the period during which the services are provided.

2) Income from the sale of fixed assets, intangible assets, securities, intellectual property objects, materials and other assets;

For example, broadcast gratis computer net book with the value of 340 thousand sum. To the transferee - this is income and the amount of

income will be 340 thousand sum (not below the cost of the transferred assets). Loss on extinguishment of the residual value of the computer for the transmission company, but reduces the tax base income (profit).

It should be noted that according to the Accounting Act, the share premium arising on the initial public offering of its own shares as the difference between the selling and the nominal value of the shares is not recognized as income, but recorded on account of the added capital account .

### 3) Interest income;

It refers to percent income received on deposits, debentures and securities.

Remuneration received for granting loans, grants and other services income of the taxpayer and is subject to withholding tax at the rate of 15%. Upon reflection of interest income must be remembered that the basic principle of tax accounting is the accrual and revenue should be recorded regardless of the receipt of funds. Interest paid to banks and other financial organizations - residents are not subject to withholding tax and subject to taxation at the bank and other financial and credit institution resident in the prescribed manner.

### 4) Dividends;

Under the dividend for tax purposes meant income earned on shares and from equity participation in the authorized capital of businesses.

Dividends are treated for tax purposes as income and subject to withholding tax at the rate of 15%.

Income received by legal entities in the form of dividends and directed to the charter capital of a legal entity, from which they are derived, are not taxable. Legal entity - resident, received dividends and interest, previously taxed at the source of payment in the Republic of Uzbekistan shall be entitled to deduct them from gross income if the documents confirming the payment of tax withheld.

### 5) Gratuitously received property;

If the donation of funds is intra between enterprises, where the system is understood ministry, concern, trust, etc., and these funds are received by the separation balance sheet, on the orders of the superior organization, they are not subject to taxation.

### 6) Income from rental property;

The object of taxation is as operating leases and long-term, as well as financial lease (leasing). Leasing (financial lease) - a special kind of the lease, in which one party (the lessor) on behalf of another party (the

lessee) acquires from a third party (seller) to the property due to the property lease agreement (the object of leasing) and provides it to the lessee for a fee on certain such contract conditions for possession and use for a period exceeding twelve months. The total amount of the lease payments over the period of the leasing contract exceeds 90 percent of the cost of leasing object.

The object cannot be leasing land and other natural objects, as well as other property seized from circulation or partially defensible. Income is not the entire amount of the lease payment, but only financial income of the lessor (the interest rate).

7) Royalties;

Royalty - is income from assignment of copyright use, "know-how", software, patents, drawings, models, trademarks, industrial, commercial or scientific equipment, etc.

For example, for the use of the trademark "Coca-Cola" company pays the owner (owner) brand a certain percentage of the net profit ( or of the revenue ) . The trademark owner in this case receives income in the form of royalties.

8) Financial aid (except for subsidies from the state budget);

It may be added that, if it turns out the temporary financial assistance to be refunded, but gratuitous, in this case it does not appear the recipient of taxable income.

9) Income from write-off accounts payable and accounts receivable for which the limitation period has expired;

Liabilities incurred on purchased goods (works, services), as well as accrued income and other employee benefits , are not satisfied within three years from the date of occurrence, and are recognized as questionable to be included in the taxpayer's income .

Example:

The company had accounts payable to suppliers for received in September in the amount of goods of UMI year 3400 sums. After 3 x armor since the formation of the debt statute of limitations expires payables, and the entity is required to include 3,400 sums in revenue in 2009.

10) Income received in the form of compensation previously deducted expenses, losses, or "hypochondriac debts";

These revenues include:

- The amount of claims recognized dubious previously deductible and reimbursed in subsequent tax periods;

- Any compensation received for reimbursement of expenses (losses), which were previously classified as deductions.

Payment received the proceeds of the tax period in which it was recovered.

Here we must add that, in accordance with the Procedure for accounting and reporting of receivables and payables at uniform prices "to be deducted shall be only the actual cost (no extra charge) in accounts receivable. In this accounting entry is made reversed entry amounting margins".

11) Foreign exchange difference on foreign currency accounts;

This refers to the difference arising on transactions made in foreign currency difference arises between the transaction date and the settlement date for the operation as a result of accounting for transactions in the national currency.

According to the "Regulations on the order of transactions in foreign currency accounting statistical and other reports" (№ 1411 dated 17 September 2014) entities pre currency revaluation of balance sheet on a monthly basis at the rate of the Central Bank of the Republic of Uzbekistan on the basis of statements from the currency of the bank account, with such resulting exchange differences on accounts.

- "Deferred revenue" - using the method of accumulation;

- "Income from financing activities" - using the method of direct attribution.

The chosen method is defined accounting policy:

- Reorganization of the subject (merger, demerger);

- Change of ownership;

- Changes in legislation or to the Republic of Uzbekistan accounting regulations of the Republic of Uzbekistan;

- Develop new methods of accounting.

In the transition from the accumulation method on the method of direct attribution of positive and negative exchange differences previously accumulated and the resulting monthly revaluation of foreign currency balance sheet item , monthly (uniformly) charged to the results of financial and economic activity of the business entity to the end of the calendar year in which the accounting policies adopted .

Accumulated as a result of a monthly revaluation of foreign currency balance sheet items Foreign exchange difference (using the method of storage) refers to the results of financial and economic activities in the following order:

- a receivable in foreign currency - as its repayment (debit) ;
- in other cases - as making business transactions with related currency balance sheet items.

Amount of exchange difference is determined by comparing the value of foreign currency balance sheet items before and after the revaluation.

Monetary balance sheet items include:

- ☐ currency cash on hand and on deposit and loan accounts at the bank , including letters of credit ;
- ☐ monetary instruments in foreign currency;
- ☐ short-term and long-term securities denominated in foreign currency receivables and payables , loans obtained in foreign currency

Not to be recalculated;

assets (fixed assets , intangible assets, inventory items ) economic entity acquired in foreign currency ;

- ☐ size of the authorized capital and the ratio of shares of founders (participants) of the business entity , including foreign-invested enterprises .

It should be noted that the exchange differences arising during the formation of the authorized capital of the joint venture, due to changes in exchange rates on the date of registration of the Statutes and the date of transfer of property as a contribution to the charter capital is recognized in the accounts and records of the added capital is not considered as income of an economic subject.

For Foreign Missions, not engaged in business activities in the country, exchange differences arising from the translation of the balance of the foreign currency accounts of the last date of the reporting period at the rate of the Central Bank of the Republic of Uzbekistan, is not considered as income.

Also, if non -profit organizations receive grants in the currency as the target of funding, the exchange differences are in this case, the increase (decrease) the amount of targeted funding

12) Extraordinary income;

Extraordinary income, as well as damages must meet three criteria:

- To be very rare (but important) phenomenon,
- Does not have any connection with the ordinary activities of the enterprise,
- Does not depend on the decisions of the management.

Taking into account these basic criteria should nevertheless be noted that they often do not fully answer the question: what income (loss) may be recognized as extraordinary. No tax or accounting legislation does not address this question, although in international accounting standards it is quite clearly specified. For example, extraordinary items include: results of expropriation, the consequences of major accidents, losses incurred as a result of restrictions imposed in accordance with the laws or regulations and other acts.

### 13) Other income

For example, income from the revaluation of inventories which according to the Tax Code (Article 37) is included in the taxable income as the sale of goods (works, services). In other income group can also be attributed awarded or recognized by the debtor fines, penalties and other sanctions, apart from the budget returned unreasonably withheld previously weave , if these amounts were not previously as deductions . As earnings from previous years revealed in the reporting year, recorded inessential positive corrections of errors of past years identified in the reporting period. For example, errors and amortization charge.

### **Exemptions from payment of tax on income (profit) tax**

From tax on income (profit) exempt entities:

- a) Specialized in the manufacture of prosthetic appliances, equipment, and to provide services for people with disabilities - the core business ;
- b ) The legal entities in which the total number of work at least fifty (50 ) percent of the disabled, war veterans and labor front 1941-1945 , except for trading , brokering , supply and procurement activities .
- c) Medical and industrial workshops in hospitals;
- g) Penal institutions;
- d) Non-profit
- e) Urban passenger transport (except taxis) for services related to the transportation of passengers:
- g) Income (profit) from the implementation of the restoration and rehabilitation of historic and cultural monuments;
- i) Dividends and interest on government bonds and other valuable papers of the state:
- m) Production enterprises with foreign investments make capital investments in projects included in the investment program of the Republic of Uzbekistan, tax exempt in the first seven years from the date of registration;

n) Newly established enterprises, including foreign-invested enterprises (except for trading, brokering, supply and procurement activities), the species in towns, villages in the first year after the registration of tax-exempt income (profit) in the second year - are taxed at a rate of 25 per cent in the third year - 50 percent of the established rate. In subsequent years, the tax is paid in full at the statutory rate.

This exemption applies to newly created enterprises that are registered and operating directly on the territory of towns and villages.

p) Protection unit in the internal affairs bodies;

t) With a license to practice as concert activity;

y) Revenues received by legal entities in the form of dividends and sent to the authorized capital (fund) of a legal entity, from which they are derived;

Taxable income (profit) tax decreases in the amount of:

- contributions to environmental, health and charities, cultural institutions, public education, health, labor and social protection, physical culture and sports as well as self-government bodies - but no more than one per cent of taxable income

- costs allocated to investment (development, expansion and renovation of primary production, colleges, academic lyceums, schools and preschools to address the Cabinet of Ministers of Uzbekistan) , as well as the repayment of loans on investment, with the full use of accumulated depreciation , but no more than thirty percent of taxable income (profit );

- deductions from income (profit) businesses owned by religious and public organizations (other than trade unions, political parties and movements), charitable satisfy directed towards the implementation of authorized activity subsidized associations and foundations;

- this privilege applies only to businesses and other entities that are owned by non-profit organizations, that is , endowed with these funds and companies authorized to fund 100 per cent .

- funds allocated for financing the program "Umid" .

- According to the Resolution of number 395 of 12.09.2013, the next time target set privilege : the period before January 1, 2006 means the contractor industry sent their acquisition of construction machinery and equipment , tax-deductible when calculating tax on income (profit) .

**Mechanism for the calculation and payment deadlines for income tax (profit). Reports and calculations on income (profit).**



All legal entities income tax payers, except foreign, are the tax authorities at the place of registration of tax payments on income on an accrual basis, at such times as the quarterly (annual) financial statements.

Taxpayers to 5 of the first month of the quarter (i.e., January 5, April 5, July 5, October 5) submit to the tax authority at the place of tax registration certificate, based on the expected income (profit) for the corresponding quarter.

According to this reference entities having income from sales for the quarter more than two hundred minimum wage, pay the current payments on income on 15th of each month in the amount of one-third of the quarterly sum of income.

Made to the amount of current income tax payments during the year go to offset the tax assessed by the taxpayer for the reporting year. Payment of income tax must be made within five days of the date established for submission of calculations on income.

### **Lecture 3. SIMPLIFIED TAXATION SYSTEM FOR MICRO AND SMALL ENTERPRISES**

#### **Plan**

1. Sum of the single tax payment is credited to the local budget.
2. Calculation and payment deadlines single tax payment.
3. Order transition to the simplified tax system.

Procedure for applying the simplified taxation system was developed by the Cabinet of Ministers (Decree of April 15, 1998 № 159, taking into account additions and changes) under the Internal Revenue Code. From 1 July 2005 the simplified tax system provides a single tax payment instead of the single tax, compulsory contributions to the Pension Fund, the National Road Fund and the school with the exception of the fee for registration of legal entities.

The right to choose the system of taxation provided to micro and small enterprises on a voluntary basis with the exception of micro and small enterprises:

- In the sphere of trade and public catering,
- Carrying out certain activities, which shall be paid a fixed tax
- Agricultural producers paying the single land tax,
- Participating in the performance of work under a production sharing agreement,

- Carrying out activities in the organization of lotteries, sweepstakes and other games of chance.

Action simplified tax system applies to legal entities of all forms of property that meet the criteria of average annual number depending on the scope of activity , with activity for the simplified tax system is determined by the Ministry of Macroeconomics and code set .

According to the Decree of the President of the Republic of Uzbekistan dated 30.08.2013 № UP -3305 "On introduction of and additions" to the Decree of the President of the Republic of Uzbekistan dated 09.04.1998 "On measures to further stimulate the development of private enterprises , small and medium-sized businesses":

**from 1 January 2004 in the category of small businesses (business) include:**

Individual entrepreneurs;

Microenterprises with annual average number of workers employed:

- In manufacturing sectors, - no more than 20 people,
- In services and other non-manufacturing industries - not more than 10 persons,

- Wholesale and retail trade and catering - no more than 5 people;

Small businesses with annual average number of workers employed in industries:

- Light and food industry, metal processing and instrumentation, woodworking and furniture industry and building materials industry - no more than 100 people;

- engineering, metallurgy , energy and chemical industries, production and processing of agricultural products, construction and other industrial production sphere - not more than 50 persons;

- Science, scientific services, transportation, communications, services (excluding insurance companies), the catering trade and other non-production sphere - not more than 25 persons.

For micro and small enterprises, applying the simplified taxation system, there remains a valid procedure for the payment of customs duties, excise tax, value added tax on imported goods (works, services), government fees, license fees, royalties, non-budgetary funds, compensation for pollution environment and waste disposal on the territory of the Republic of Uzbekistan .

Enterprises payers of single tax payment, the amount of VAT paid in the cost of purchased goods and raw materials include the cost of these items (except consignment on which value added tax for the

materials supplied, provided the work is expensed period) and raw materials amounts of VAT paid to suppliers for services and activities are expensed together with the cost of works and services.

Micro and small enterprises producing excisable goods can move to a simplified tax system only when the payment of excise tax.

On July 1, 2005 for micro and small enterprises producing excisable goods taxable base is reduced by the amount of excise tax.

Since January 1, 2004 micro and small enterprises engaged in mining operations may move to single tax payment subject to the payment of tax for the use of subsoil in the manner prescribed by the Tax Code of the Republic of Uzbekistan.

If the enterprise payer single tax payment, leases, plant and equipment, intangible assets, they are with these assets leased (except financial leasing), pay property tax in the normal manner. At the same time to the enterprise not subject to tax breaks on property granted to exporters.

When payment of the single tax payment there are the following benefits.

1) Micro- and small enterprises, applying the simplified taxation system and owned by public associations of the disabled , the fund "Nuroni" and association "Chernobyl Uzbekistan" , the total number of running at least 50 percent disabled, veterans of war and labor front 1941-1945 exempt from the single tax .

This exemption does not apply to companies involved in the mediation, supply and procurement activities.

2) In accordance with the Cabinet of Ministers on November 13, 2012 N 390 "On measures to stimulate consumer goods market saturation and improve mutual relations between producers and trade organizations" revenue production of micro and small enterprises received:

- From the production of consumer goods, subject to a single tax rate reduced by 25 percent.

- Due to the increase in physical volumes of production of consumer goods, is exempt from the single tax .

3) In accordance with the Decree of the President of Uzbekistan UP- of 27.11.2015, the exporters to set the order of the single tax payment, depending on the share of exports of goods (works, services) of own production for hard currency in total sales:

If the export share of 15 to 30 percent - set single tax rate is reduced by 30 percent;

If the export share of 30 percent or more - set the single tax rate reduced by 2 times.

**The objects of taxation uniform tax payment are:**

- For procurement and supply and marketing companies , enterprises and organizations providing services on a commission and brokerage firms - the gross income ;
- For enterprises of other branches of the national economy - the gross proceeds.

For building, installation, repair and construction, commissioning, design and survey research organizations subject to tax is the gross revenue calculated on the basis of the work performed on their own.

The composition of gross revenues includes:

- The amount of revenue derived from sales of products (works, services);
- Income from other sales;
- Income from financial activities. At the same time income from the revaluation of foreign currency balance sheet items considered balance between positive and negative exchange rate differences. In the case of an excess amount of foreign exchange loss on the positive, the excess amount is non-deductible when calculating the single tax payment;
- Other income, determined in accordance with the Tax Code of the Republic of Uzbekistan.

The gross income includes:

- The difference between the purchase and the sale value of the goods;
- Income from financial activities. At the same time income from the revaluation of foreign currency balance sheet items considered balance between positive and negative exchange rate differences. In the case of an excess amount of foreign exchange loss on the positive, the excess amount is non-deductible when calculating the single tax payment;
- Income from other sales;
- Other income, determined in accordance with the Tax Code of the Republic of Uzbekistan.

According to the tax law to income from financing activities are:

- Received royalties;
- Income received in the territory of the Republic of Uzbekistan and abroad from equity participation in the activities of other economic entities, dividends and income from bonds and other securities owned by the business entity. The income received in the form of dividends and

interest is deducted from gross income if the documents confirming the payment of tax payment source;

- Income from property for long term rent (leasing);
- Income from the revaluation of foreign currency balance sheet items;
- Income from revaluation of assets invested in securities, subsidiaries, etc.;
- Other income from financial activities.

Revenues from other sales include:

- Income from the sale of fixed assets, intangible assets, inventory holdings and other assets of the economic entity.

Other income includes the following types of income:

- Recovered or recognized by the debtor fines, penalties and other sanctions for breach of commercial contracts, as well as income for reimbursement of losses caused;
- Earnings from previous years revealed in the reporting year;
- Income received from writing off accounts payable and accounts receivable for which the statute of limitations has expired;
- Revaluation of inventories;
- Repayable financial assistance;
- Other operating income.

Example accounting exchange rate differences

If the reporting period exchange gains amounted to 240 thousand sum , and negative 220 thousand sum , the gross income (gross revenue) included balance ( 240-220 ) -20 UZS

If the reporting period exchange gains amounted to 240 thousand sum, and negative 260 thousand sum, the amount of the excess foreign exchange loss (20 UZS) is non-deductible when calculating the single tax payment.

In the object of taxation single tax does not include:

- Income on government bonds and other valuable government securities;
- Dividends and interest when the documents confirming the payment of the tax payment source;
- Income received in the form of dividends and directed to the share capital (fund) of a legal entity, from which they are derived.

Payers	in percent from volume of the
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	realization goods (work, services)
1. Enterprises of all branches of the economy, with the exclusion of specified in points 2-6	5
2. Enterprises, concerning with development and introducing the computer programme products	5
3. Enterprises of the agriculture, with the exclusion of agricultural commodity producers, being payer united land tax	6
4. Enterprises, getting incomes from organization mass entertainment action by attraction of legal and physical persons (including), being licensed on occupation touring-concert activity	30
5. Concerning with provided with-sales and prefabricated by activity, broker offices prefabricated	33
6. Enterprises concerning with broker activity, on bond market	13
7 For enterprise-exporter, beside which share of the export goods (work, services) own production for liberally converted currency forms: A) From 15 to 30 percents in general volume to realization - installed rate falls on 30%; B) From 30 and more percent in general volume to realization - installed rate falls in 2 times .	
8. Enterprise to sphere of the services on volume with using plastic card	Confirmed rate reduce on 10%

### **Order transition to the simplified tax system**

For enterprises transition to a simplified system of taxation, enterprises need to file a state tax authorities at the place of registration of a written application no later than one month before the beginning of

the quarter. The decision to move on a simplified system of taxation or reasoned refusal imposed state tax authorities within ten days from the filing date now. In the transition to a simplified tax system for businesses retained tax liabilities for the previous period based on the current period to the tax system.

The transition from the single tax payment to the previous system of taxation for the year is not done.

Newly established enterprises, decided to apply the simplified taxation system from the registration by submitting a written statement to the tax authorities at the place of registration. While allowing the use of a simplified tax system is not required.

### **Calculation and payment deadlines of single tax payment**

Single tax payers are calculated independently based on the taxable turnover and approved rates. Calculations on the single tax payment are submitted in the first quarter, six months, nine months, no later than the 25th of the month following the reporting quarter and for the year - at the time of submission of annual financial statements.

Single tax is paid to the budget quarterly cumulative to 25th of the month following the reporting quarter. According to the Regulation " On the procedure for transfer" 7 percent of the assessed amount of single tax payment to the Development Fund Public Youth Movement of Uzbekistan "Kamolot":

Small businesses, which are the single tax payers and concluded agreements on mutual support with field offices Public Youth Movement of Uzbekistan "Kamolot" transferred to the fund 7 percent of the assessed amount of single tax payment .

Enumeration 7 percent of the assessed amount of single tax payment to the Development Fund of the Movement, carried out by small businesses on the basis of agreements on mutual support, equivalent to mandatory payments to the state budget.

Small businesses, concluded agreements on mutual support, paying the single tax payment, make out two payment orders:

- the budget - amounting to 93 percent of the amount accrued single tax payment;
- Fund - at the rate of 7 per cent of the assessed amount of single tax payment.

In the implementation of the transfers of the amount of single tax payment, small businesses are the tax authority where they register, the following documents:

- a copy of the agreement on mutual support with the executive body of the movement "Kamolot";
- payment of accrued and paid the sum of the single tax payment for the period.

In cases of violations by small businesses terms of transfer of the single tax payment owed to the Fund on the basis of agreements on mutual support, accrued fines are levied in the state budget in accordance with the law.

## **Lecture 4. INCOME TAX OF INDIVIDUALS**

This tax is central to the system of taxation of the population, the most traditional tax levied throughout the historical development of the national economy abroad. Reducing income tax rates (maximum rate was reduced from 45 to 29%) is accompanied by the constant expansion of the tax base, and as a source of payment of the tax is not only the gross remuneration of all grounds, as well as property income and income from business activities.

Taxation of income of individuals in Uzbekistan is regulated by the Tax Code and the Regulations "On the procedure of calculation and payment to the budget of tax on personal income number 1110 March 14, 2002," Regulations on the procedure of calculation and payment of tax on income of physical persons engaged in entrepreneurial activities without a legal entity levied in a fixed size »(№ 1230 from 03,04.2003) and other regulations.

According to these documents taxpayers on personal income are individuals with taxable income in the fiscal year. Thus all individuals for tax purposes are divided into two categories: residents and non-residents of the Republic of Uzbekistan. Natural person resident in the Republic of Uzbekistan, or residing in Uzbekistan for 183 days or more during any period of twelve months commencing or ending in the fiscal year, is considered as a resident of the Republic of Uzbekistan.

Resident individuals of the Republic of Uzbekistan are taxed on income derived from their activity as stokers in the Republic of Uzbekistan and abroad. Individuals who are not residents of the Republic of Uzbekistan, are taxed on income derived from activities in the territory of Uzbekistan.

If international treaties to which the Republic of Uzbekistan stipulates other rules of taxation on personal income than those



contained in the instructions of the tax on personal income, the provisions of international treaties.

Gross annual income of individuals include cash or other means, to be received (received) by the taxpayer, or obtained them for free, including:

1. The revenue received in the form of wages;
2. The property income individuals;
3. The business income individuals.

Income received in the form of wages, include income received by individuals from work under an employment contract and the contract of civil nature.

Income received in the form of wages, also include:

- a) the negative difference between the cost of goods (works, services) sold by employees, and the purchase price or the cost of goods (works, services);
  - b) the costs of legal entities (the employer) for reimbursement of employees not related to its activities; (eg payment of cellular communication, provided that the cell phone belongs personally to the employee);
  - c) written off by the decision of the employer's debt employee in front of him;
  - d) the cost of the employer for the payment of insurance premiums on voluntary life and health of its employees;
  - d) the amount paid by the employer on account of payments to be deducted from the individual;
- Any retention of a physical person, such as an administrative fine, paid by the employer for its employees is the income of the latter.
- e) other costs of the employer, which are direct or indirect income of its employees.

Such expenses include amounts paid by a legal person, which must be paid by the employee of the legal entity.

By property income received by individuals are interest, dividends and income from the lease of property.

Income from business activities of individuals include all revenues from sales of goods (works, services), other not prohibited by the legislation of the activities carried out on an individual basis, net of expenses, mandatory payments, expenses and charges related to the recovery of this income.

For individuals engaged in entrepreneurial activities without forming a legal entity and pays income tax at fixed rates, the procedure for determining the total income and the corresponding residues on them in accordance with the Tax Code of the Republic of Uzbekistan does not apply.

The tax rates on personal income From 1 January 2006 the amounts of wages, compensations and other income of individuals tax is levied at the following rates (except for certain categories of taxpayers, taxation which will be discussed below). The size of the total amount of tax revenue Up to five times the minimum wage of 13 per cent of the amount of income five (one sum) to ten times the minimum wage tax fivefold +18 percent of the amount exceeding five times the minimum wage From tenfold (sum 1) the minimum wage and higher tax tenfold by 25 percent of the amount exceeding ten times the minimum wage For tax purposes, the minimum wage is taken into account on an accrual basis from the beginning of the year (the sum of the monthly minimum wage in the same period from the beginning of the year).

According to paragraph 2 of PCM №595 «On measures for implementation of the Law of Uzbekistan" On the Cumulative Pension Benefits Act, "the amount of tax payable to the budget, calculated at current rates, reduced by the amount of mandatory monthly contributions allocated to individual pension accounts of citizens (1 % from the salary (income) of the employee). The place is considered the main work of the citizen organization conducted v.kotoroy employment history. There are some special conditions of the taxation of income of individuals.

- Dividends and interest paid to individuals. They are taxed at the source of payment at the rate of 10 percent.

- Incomes of workers employed in industries with particularly hazardous, especially heavy, harmful heavy working conditions included in the lists of NN 1, 2 and 3 industries, institutions, jobs, professions, positions and indicators approved by the Cabinet of Ministers of the Republic of Uzbekistan May 12, 1994 N 250.

They are taxed at rates above, but the level of withdrawal of their income should not exceed 25 percent.

Taxation of income of this category of citizens is as follows:

- 1) The tax shall be calculated in the normal manner (in the same period from the beginning of the year);

2) is determined by the proportion of the estimated tax on the total income for the year (the sum of the calculated income tax) / (the sum of income from the beginning of the year) x 100 percent;

3) If the proportion of the estimated tax not exceeding 25 per cent tax on income retained in the same amount), there is calculated in accordance with para. 1).

If the proportion of the estimated tax exceeds 25 percent, the portion of the tax that exceeds 25 percent, the amount excluded from the calculated tax (ie the tax is withheld at a rate of 25 per cent of the total income earned in favorable conditions of work). If you hold produced before the deduction of tax withheld (for the previous period). Surcharges to wages received for working in areas with harsh climatic conditions, and the coefficients (the district for work in mountainous, desert and arid areas).

In this case, the tax is levied at the rate of 13 percent.

The taxable income of natural persons does not include the following income:

a) an indemnity paid at the termination of the employment contract within twelve times the minimum wage, benefits of state social insurance and public provision, unemployment benefits, maternity leave, except for temporary disability benefits (including benefits for care a sick family member), as well as benefits and other forms of assistance in cash and in kind provided by the citizens of the means of charitable and environmental funds.

6) received alimony;

c) scholarships of university students and pupils of secondary specialized vocational educational institutions and created on the basis of their business - schools, including religious schools averages, assign them to these institutions, as well as scholarships, shall establish a means of charitable and environmental funds.

**Rate**

13% -25% rate

13% rate 10% income exemption level should not exceed 25% of the income level of withdrawals should not exceed 20% of the fixed tax rates, depending on the type of activity

**Tax benefits**

Not included in taxable income:

☐ all benefits (severance, maternity), except for temporary disability benefits;

- ☐ scholarships, state pensions;
- ☐ amounts received in respect of the harm associated with damage to health and the loss of a breadwinner;
- ☐ income from donations;
- ☐ payment for the vouchers by the employer to the camps, spa facilities (for the rest of parents with children);
- ☐ payment by the employer or outpatient hospital care of their employees;
- ☐ income from the sale of their own property;
- ☐ value of property received as a result of inheritance and gifts; et al. ☐
- ☐ interest and gains on government securities (and lotteries);
- ☐ interests and winnings on deposits in banks;
- ☐ income from the sale grown in his household goods;
- ☐ revenues aimed at redemption of shares of privatized enterprises, property of state enterprises, registered housing bonds Uzjilsberbank;
- ☐ income from the use of the patent holder in own production of industrial property;
- ☐ dividends directed to the charter capital of the legal entity, from which they are derived;
- ☐ obtain insurance;
- ☐ other valuable gifts;
- ☐ financial assistance (except related to natural disasters and other emergencies);
- ☐ travel expenses;
- ☐ compensation for use of personal vehicles for official travel of employees;
- ☐ other
- ☐ compensation by a decision of the Government of the Republic of Uzbekistan

g) government pensions and allowances to them.

d) amounts received by individuals for the delivery of blood to other types of organ donation, as well as for the amounts received by employees of medical institutions for the collection of blood;

e) amounts received as compensation for the harm resulting from injury or other damage in connection with the death of the breadwinner;

h) the amount of wages and other sums in foreign currency obtained by citizens from publicly funded institutions and organizations in connection with the direction of their work abroad within the amounts established by the legislation;

i) amounts received from the sale of property belonging to individuals on the right of private property, in addition to revenues from the sale of property carried out as part of business activities.

All payments made by specified individuals for sold goods, legal entities, including representative offices of foreign enterprises are required to report quarterly to the state tax service on its location.

a) the amount of income individuals by sale grown in his household cattle, rabbits, nutria, fish, poultry, both in vivo as well as products of their slaughter in raw and processed form, and products of beekeeping and grown in this farm crop production in kind.

l) the value of gifts received from legal entities in the amount of up to six times the minimum wage for one year and the amount of the cost of merchandise prizes received at international and national contests and competitions;

If the value of the gifts received from legal entities, more than six times the amount of the minimum salary for one year, this excess amount is included in the taxable income of an individual.

m) the amount and value of the property resulting from inheritance and gifts, except for the amounts of royalties received by the heirs (successors) authors of works of science, literature and art;

n) winnings on government bonds and lotteries, as well as interest on government securities of the Republic of Uzbekistan chain;

a) amounts received by citizens insurance.

f) the amount of financial assistance provided for one year:

- In connection with natural disasters and other emergencies - completely;

- Family members of the deceased worker or employee in connection with the death of his family members - up to ten times the monthly minimum wage;

- In other cases - up to twelve times the monthly minimum wage for one year;

p) income on certificates of deposit, interest and gains on bank deposits and state treasury bonds;

c) the amount of wages and other incomes, subject to taxation, to redeem the property of state enterprises, the acquisition of shares of privatized enterprises in the name Uzjilsberbank housing bonds and repayments of loans granted for this purpose.

Also not included in the total income of income received by individuals in the form of dividends and directed to the authorized capital (fund) of a legal entity, from which they are derived.

m) the amount of income received by an individual, the patent owner (licensor) on the use of industrial property in their own production or the sale of licenses to them from the date of use within the period of validity, as well as the licensee of the use of industrial property from the date of application:

- Inventions and selection achievement - a period of five years;
- Industrial design patent - within three years;
- Utility model - within two years;

v) the amounts paid by enterprises, institutions and organizations to their employees and / or for them in order of full or partial compensation for the cost of permits for children and teenagers in children's and other health camps, spa facilities specifically designed for relaxation of parents with children, as the cost of outpatient or inpatient medical care of its employees.

f) compensation payments within the limits permitted by applicable law (such as travel and per diem), except compensation for unused leave upon termination of the employment contract.

h) one-time cash reward or value equal commemorative gifts received by individuals, awarded state awards and state awards of Uzbekistan;

iii) non-recurring cash rewards received by sportsmen for medals at the Olympics and other international sports competitions.

Special mention should be compensation for use of personal vehicles for official travel of employees.

According to Resolution of the Cabinet of the Republic of Uzbekistan № 154 from 02.04.1999 was established the following procedure for such compensation.

Compensation paid to employees of enterprises, institutions and organizations, regardless of ownership, production activity is connected with the necessity of systematic business trips, and are used for these trips (excluding travel) cars under their personal property.

Expenses for compensation made within 30 per cent of the appropriation provided for the maintenance of official cars.

## **Lecture 5. VALUE ADDED TAX**

### **Plan**

1. Economic preconditions introduction of VAT in Uzbekistan.
2. Disadvantages of value added tax
3. Payers of value added tax
4. Are not subject to receipt of payment (received advances).
5. From value-added tax exempt.
6. Imposing a zero rate

Like all indirect taxes, VAT, performs primarily fiscal role, with its introduction aimed at securing a reliable source of state budget revenues. It is also one of the most effective means of preventing inflationary depreciation budget as a direct connection between tax revenues rising prices.

The object of taxation in this case is the selling price of goods or services. The system of VAT each manufacturer (seller) receives from its buyer (customer) statutory income taxes and transfers it to the budget less the amount of VAT previously paid and suppliers. Based on the classification of taxes on power rating of the property taxation, VAT applies "real taxes". Payment is determined only by the nature of the transaction, and does not take into account the financial condition of the subject of taxation. Economic preconditions of introduction of VAT in Uzbekistan.

### **Disadvantages of value added tax**

In transition economies appear VAT and negative traits that directly affect not only direct consumers but also producers. These include the following.

Date of actual payment of VAT (the acquisition of wealth, works and services) is sometimes far ahead of time of the taxable products. The situation is exacerbated for applications in the tax accrual. Since at the moment of accrual of the implementation is considered on the day of receipt of funds, and the day of alienation or shipment of goods, the company must pay VAT regardless of whether received revenue from sales of products, even if we assume that the product is implemented in a timely manner, and money realization came to the company, the amount of VAT applied as a credit to its significance (adjusted for inflation) is less than was paid to suppliers accrual when there is a high probability of diversion of working capital on a payment of VAT. Moreover, the period for which these diverted means depends on the time of receipt of revenue.

## **VAT on manufactured goods in the Republic of Uzbekistan (works, services)**

### **Payers of value added tax are:**

- Legal persons carrying on business in the territory of the Republic of Uzbekistan, except for legal entities, which in accordance with the current legislation provides for special taxation (Enterprise Trade and public catering - by main activity, small businesses that adopted the single tax payment, fixed tax payers, and agricultural producers, the single land tax payers - the core business);
  - Legal and physical persons importing goods (works, services)

### **Objects of taxation on value added are:**

1. The turnover of sales of goods (works, services);
2. Imports of goods and importation of works (services) performed (provided) on the territory of Uzbekistan.

Consider the procedure for calculation of VAT on manufactured goods in the Republic of Uzbekistan (works, services), when the taxable turnover is sales turnover. With regard to product sales turnover means the transfer of ownership of the goods (sale of goods) as a self-produced and purchased on the side.

For tax purposes, the goods are considered anything that has purpose and consumer price (goods, products, real estate, including buildings and structures, electro-heat, gas, water, etc.).

Since legally the term "implementation" is not defined for purposes of taxation relates to the implementation of virtually any disposal of property, including making it as a contribution to the charter capital of other companies. When implementing works subject to tax is the cost of construction and installation, maintenance, research, development, technology, design, survey, restoration and other works.

Sales turnover of services include yourself

- passenger and goods transport, including transport (transfer) of gas, oil, petroleum products, electricity and thermal energy services for the loading, unloading and reloading of goods, storage;
- Services for renting. Property and real estate;
- Intermediary services;
- Communication services, household, housing and utilities; advertising services;
- Data processing services and information provision;
- Other services.

Taxable turnover also includes (equal to sales);



- Turnover of sales of goods, works and services, including own production within the enterprise for their own consumption, not associated with a business enterprise and its employees;
- Turnover of the donation or transfer of partial payment of goods (works, services) to other companies or individuals, including employees;
- Turnover of sales collateral, including the transfer of the mortgagee on default of the secured obligation.

Are not subject to receipt of payment (received advances)

Also are not subject to sale of lottery tickets for the lottery organizer, as they are on the special regime of taxation. At the same services for the implementation (dissemination) of lottery tickets, provided by companies (payers of value added tax) to the organizer of the lottery are subject to value added tax in the normal manner.

### **Determination of taxable turnover for VAT and its correction**

Taxable turnover for the implementation based on the cost of goods (work, services) on the basis of the applicable prices and tariffs without including them in the value added tax. When calculating the taxable turnover on excisable goods shall include a sum of excise. Consider the various options determine the size of the taxable income on VAT.

When sending goods (works, services) free taxable turnover is determined based on the costs (tariffs), without including them in the value-added tax, the enterprise existing transmission, but not lower than actual costs for production (acquisition) of goods (works and services). With the donation of goods (works, services) the payer is a company, their transmitter.

When transferring donated equipment and intangible assets taxable turnover is defined as the difference between the price prevailing in the transmission and the residual value.

Thus, the transfer of fixed assets and intangible assets free of charge on the residual value of the object is no VAT. In the case of gratuitous transfer of goods (works, services) as well as in the implementation, you need to invoice.

For companies selling products (works, services) at prices below the actual cost (or purchase price and costs associated with the acquisition of goods), for the purposes of taxation applicable price resulting from the Company at the time of implementation, but not lower than:

- The production of goods (works, services) - the actual production cost of goods (works, services);

- The implementation of trade, supply and procurement activities - the purchase price and costs associated with the acquisition of these goods.

In the manufacture of goods from raw materials and supplies, the taxable turnover is the cost of processing (including costs and benefits), and on excisable goods - cost of processing depending on excise taxes. The cost of returnable containers, including glassware, having the collateral value is not included in the taxable turnover, except for the implementation of such a container manufacturer.

For businesses, having a long production cycle (building, repair and construction, commissioning, design, survey and research organizations, the taxable turnover is the cost of work performed and confirmed customer of works (services) for which payment documents presented for payment on the basis of contractual prices.

During construction works contractors and subcontractors, the taxable turnover is the cost of the work performed and confirmed with the inclusion of the cost of materials the contractor (subcontractor) and the customer's materials transferred (sold) by assigning the value added tax. In this case the amount of VAT is offset if contractors and subcontractors are payers of this tax.

That is, if the contractor uses materials in the construction of the customer, it is treated as an acquisition of materials - the contractor and as a disposal (sale) of materials - the customer. When implementing logistical resources (materials, structures and products necessary for the performance of construction work, standard equipment, equipment, non-standard technological and energy equipment, including special paper) contractors subcontractors in the construction of a single object, the taxable turnover is realized price logistical resources, based on applicable prices and tariffs, without turning them into value-added tax.

Upon completion of the entire scope of work envisaged by the project (including special and commissioning, a complete set of object technology and engineering equipment), according to the act of putting into operation of the construction costs for construction in progress are included in the taxable turnover of the contractor for the value added tax. In this case the sum of value added tax, which is taken by the contractor to offset cost of work in progress, is the amount of tax on the receipt of the invoice in allocating these costs in the taxable turnover during the construction period.

Construction and installation work carried out for their own needs on their own, are not subject to value added tax. Amount of value added tax on material resources, fuel, construction works are charged to the object.

For procurement, supply and marketing, and other enterprises engaged in buying and selling of goods (payers of value added tax), receiving income in the form of the difference in prices, extra charges, surcharges, taxable turnover based on the cost of goods sold to buyers on the basis of the prices used without the inclusion of these value-added tax.

For organizations that sell goods on consignment contracts, taxable turnover is also based on the cost of goods sold to buyers on the basis of the prices used without the inclusion of this value-added tax. For organizations engaged in brokering activities under commission, the amount of taxable turnover shall be determined based on the amount of commission. The sale of fixed assets and intangible assets, which is not provided for offset value added tax, taxable turnover is defined as the difference between the foam and the residual value realization.

However, if the residual value is absent, i.e. they are fully depreciated and sent free of charge on the appraised value, then the object of taxation serves the estimated amount at which and the VAT. Not included in the taxable turnover, plant and equipment, transferred gratuitously if their free transfer occurs between enterprises of the separation balance sheet, according to the order of the parent organization, which is the owner of these companies.

Passing the apparatus associated with the loan write-offs and money lender things and their adoption of relevant accounts of the borrower company when you return to the balance of the loan to the lender does not go the same things, or the money that they were given earlier, but otherwise equal in quantity and quality similar property.

**These are not included in the amount of taxable sales:**

1. Transmission products, semi-finished products, work and services among the structural units of the enterprise for industrial production needs of other structural units of the same enterprise. This so-called in-plant turnover when finished goods (works, services) does not extend beyond the enterprise, the buyer can not be realized, and is used within the company to finalize, and only after that is intended for the consumer. Under the structural units of enterprises refers to such units of the enterprises that do not have a current account in a banking institution

and a separate balance sheet and the balance sheet consist of the main enterprise.

If such transactions occur with the above units (branches) allocated on a separate sheet and having a separate checking account, VAT on the transfer of products should be assessed, as these subdivisions for tax purposes equal to the legal entities and treated as separate taxpayers.

2. Turnovers division of property between the founders (members of managing companies and partnerships) enterprises due to their elimination.

This provision does not apply if the assets of the liquidated enterprise is sold to other parties.

3. Turnovers on transfer of fixed assets and intangible assets as a contribution to the charter capital of the company.

### **Adjustment of taxable turnover**

In case of return of goods after customers pay the settlement documents, and failure From customers previously paid work or services for the amount of value added tax on such transactions is corrected turnover from the sale of goods (works, services) subject to the one-year limitation period.

If the goods for which the warranty period of service, return within that period to the manufacturer, credit or refund of the value added tax on such goods is made regardless of the length of the original payment settlement documents for buyers and tax revenues to the budget. However, given that the manufacturer (supplier) for shipment of goods produced previously set by the buyer of such goods the invoice in the prescribed form, that when you make a transaction to return the goods relevant documents ('statements, invoices) manufacturer (supplier) should:

- when returns in full - to cancel the previously issued invoices;
- If a partial refund - instead of the previously issued invoices that need to cancel, the buyer put a new invoice, which will serve as the basis for the adjustment.

New invoice gives reason to make an adjustment to the manufacturer turnover from the sale of goods (works, services) on the amount of VAT and the buyer (VAT payer) - adjustment to the amount of VAT to be offset.

Adjustment amounts of value added tax to be offset is made in the tax period in which the above cases came in VAT exemption

### **Benefits for the value added tax**

Benefits for the value added tax is very much; and they can be conditionally divided into several groups:

- Benefits associated with financial services (operations with cash foreign currency from circulation, issuing loans, etc.);
- Benefits of social direction - is the largest group benefits (education, health, physical education and sport, maintenance of children in schools and children's holiday camps, products and services for the disabled, housing and utilities and maintenance services for the population, building materials for individual construction, services, religious organizations, urban transport and others);
- Benefits for services for which fees are charged performance fees, license fees;
- Benefits industries and activities that the government considers to be priorities (research and innovative work, the privatization of state property, leasing, concert activity, etc.);
- Other benefits.

#### **From value-added tax exempt:**

1. The operation of insurance and reinsurance services, including those related to these operations, carried out by intermediaries and insurance agents;
2. Operations of issuing and transfer of loans.
3. Operations regarding cash deposits, current accounts, payments, transfers, checks and other securities.

The operations related to current accounts include the opening of bank accounts, accounts regime change and renewal on the customer's accounts, crediting funds on current accounts: storage operations to transfer and extradition from the accounts, acceptance operations and Restatement, closing accounts, and authorization on carrying out operations on current accounts and account status at the request of the client.

4. The operations relating to the treatment of foreign exchange and money is legal tender, with the exception of those used for numismatic purposes.
5. Transactions relating to the treatment of the securities, except in manufacturing operations and custody of securities.

Under those relating to trading in securities refers to the purchase and sale transactions of securities and other actions under the laws of the

Republic of Uzbekistan, leading to a change of ownership of the securities;

6. Actions performed by a specially authorized bodies for which the state duty fees.

This exemption applies to all kinds of licensing, registration and patent fees and charges, levied by public authorities in the field, other authorized bodies in the provision of legal and natural persons of certain rights;

7. Services to children in preschool, to care for the sick and elderly;

8. Funeral services funeral homes and cemeteries;

9. Patent fees, registration fees and license fees for the acquisition of rights to intellectual property;

10. Production enterprises, specializing in the production of prosthetic appliances, equipment for the disabled and services for the disabled orthopedic prosthetics, medical products and production workshops in hospitals;

12. The sale of postage stamps (except collectibles), marked cards, envelopes;

13. Services organizations regard the payment of pensions and benefits;

14. Research and innovative work performed on public contracts in the science and technology programs of the Center for Science and Technology at the Coordination Council for Scientific and Technological Development under the Cabinet of Ministers.

15. Services of urban passenger transport (except taxis, including shuttle) and passenger services in the suburban railway and road transport in general (except for taxi, including shuttle).

16. The housing and utilities and maintenance services rendered to the population.

17. Services in the field of public education, training and related manufacturing process, as well as tuition fees in higher and secondary specialized educational institutions.

The services in the field of public education, training and related production process, understood the services provided by businesses, associations and organizations in terms of their educational activities.

In the implementation of educational institutions entrepreneurship, in particular lease of fixed assets and property, trade purchased goods, equipment, if mediation and other services value-added tax paid in the normal manner;

18. Turnover of sales of precious metals authorized state body for storage;
19. Services for the rites and religious organizations and associations.
20. Medical, resort and recreational, tourist and excursion services, institutions of physical culture and sports in the main (core) activities, children's camps are not taxed on the value-added services as spa and wellness organizations provided over the leisure tour price (voucher for treatment and meals).
21. The cost of state property;
22. Meteorological and aerological work;
23. Geological and topographical work;
24. Products and services by operating activities of publishers, newspapers and magazines, business printing and book trade, Television and Radio Company, the National Information Agency of Uzbekistan.
25. Services Environmental Assessment conducted by authorized state organizations;
26. Training services of the state language and Records keeping in the state language;
27. Services for transportation, loading, unloading, reloading the exported goods.
28. Manufactured goods, works and services by legal entities (except for trade, intermediary, supply and marketing and procurement), owned by associations of persons with disabilities, the Fund "Nuroni" and Association "Chernobyl Uzbekistan" in general employing no less fifty percent of people with disabilities;
29. Services under government protection units of the Interior;
30. Tour concert activities undertaken by entities licensed the right to engage in this activity;
31. Wholesale realization of books, school supplies and educational visual aids drugs and medical devices;
32. The lease payments for the surrender of property leasing;
33. Land inventory, land management, soil and geo-botanical work carried out at the expense of the state budget.

### **VAT rate and the mechanism of their application**

**In Uzbekistan the value added tax will be charged at the following rates:**

VAT rate	<b>object of taxation</b>
20%	<b>taxable turnover</b>

	<b>taxable import</b>
zero rate	<ol style="list-style-type: none"> <li>1. Exports for hard currency products, as well as performed (provided) outside the territory of the Republic of Uzbekistan of works (services), including delivery to the Commonwealth of Independent States, unless otherwise provided concluded international treaties of the Republic of Uzbekistan.</li> <li>2. Works (services) for processing of goods placed under the customs regime of "inward processing" performed (provided) for SLE.</li> <li>3. Transportation services for foreign goods through the territory of the Republic of Uzbekistan (transit).</li> <li>4. Utility services provided to the public water supply, heat supply and gas supply;</li> <li>5. Goods (works, services) sold for the official use of foreign diplomatic and equivalent representative, as well as for personal use of diplomatic, administrative and technical staff of these offices, including members of their families living with them if they are not nationals of the Republic of Uzbekistan and do not reside permanently in the country, with the application of the foreign party reciprocity.</li> </ol>

Income tax on the value added is determined by the formula:

With VAT = SAR x H / 100;

where: With VAT - the amount of tax charged to consumers;  
GPG - taxable turnover; H - value-added tax rate.

The sale of goods (works, services) at prices and tariffs, which include the value-added tax, the tax is determined by the formula:

With VAT = C x H / (H 100);

Where: St - the value of goods (works, services) subject to value added tax.

That is, when setting fixed prices for items in the amount of 360 thousand soums, including VAT, the VAT amount equals 360x20%/! 20% = 60 soums.

Enterprises are exempt from value added tax, or selling goods (works, services) are exempt from value added tax, the free (contractual) rates and the rate sum of value added tax is not included.

### **Imposing a zero rate**



As can be seen from the table above the zero VAT rate is applied in six cases; for the latter two there are separate regulations:

☐ «The application of zero rate of value added tax on sales of goods (works, services) and the diplomatic equivalent representative offices are accredited in the Republic of Uzbekistan, (per. Man Utd 30.09.1999, N 826).

Application of the zero rate for exported goods (works, services) regulated under consideration instruction number 12381.

**VAT on exports of goods and works (services) performed (provided) outside the territory of the Republic of Uzbekistan**

According to international practice on goods sold for export, zero rate on a "country of destination", when not subject to the export of goods and imported goods are taxed at the rate prescribed by the national legislation of the importing State. In accordance with the current legislation of the Republic of Uzbekistan to the export of goods (works, services) provided the following order:

☐ enterprises exporting goods for hard currency, and also performed (provided) outside the territory of the Republic of Uzbekistan works (services), including to CIS countries, unless otherwise stipulated by international treaties of the Republic of Uzbekistan prisoners, use "zero" rate.

When determining the taxation of exports is the export of goods from the customs territory of the Republic of Uzbekistan. In this case zero taxation of the export of goods is used in the following documents:

- ☐ contract (or a copy of the contract, duly certified);
- ☐ customs declaration stamped customs authority conducting the customs clearance of goods;
- ☐ vouchers and bank statement confirming the payment of the foreign person exports;
- ☐ shipping documents confirming the shipment of goods in the country of destination.

Imposing a zero rate on export of works (services) performed (provided) outside the territory of the Republic of Uzbekistan is used in the following documents:

- ☐ contracts with foreign entities;
- ☐ acts, certificates or other documents signed by the buyer and seller of works (services);
- ☐ payment documents confirming the payment of the foreign person works (services).

Services provided in the airports and airspace of the Republic of Uzbekistan for foreign aircraft maintenance, including air navigation services, if they are paid in freely convertible currency, equal to the export and shall be subject to value added tax "zero" rate.

Question VAT exports in the national currency is complicated by the fact that some States of Uzbekistan signed the Intergovernmental Agreement on the principles of indirect taxes, however, the process of ratification (approval) is not brought to an end (such as Kazakhstan) and apply to a benefit this situation (when implementing the national currency) is impossible.

### **Mechanism for calculating the VAT payable to the budget**

VAT is payable to the budget, calculated as the difference between the amount of tax assessed on taxable turnover and the amount of tax to be offset. This procedure applies to all businesses and organizations, payers of value added tax.

In a formula, the mechanism for calculating the amount of VAT can be represented as follows.

$$VAT_{to\ the\ budget} = VAT_{half} - VAT_{to\ the\ account}$$

This method of calculating VAT is called "indirect of invoice" or crediting of accounts and the method is the most common in the world.

From the above formula that subtracted *VAT<sub>to the account</sub>* can take place only if there is at the moment (or the following periods) *VAT<sub>half</sub>* (except zero rate).

In other words, if the received goods (works, services) are not used to generate income (not business purposes), and not for the taxable turnover, resulting in *VAT<sub>half</sub>* can not take place, to offset the VAT paid for no reason.

This rule has an exception: fixed assets and intangible assets used for their own needs, are recorded at cost, including the amount of tax paid on the value added.

For example, a printer purchased for their own use value of 480 thousand sum including VAT. So printer refers to fixed assets (if not purchased for resale, and therefore the company is the ultimate consumer of it), it is recorded at the cost of 480 thousand sum and paid at the time of purchase to offset the VAT is not accepted.

### **Value-added tax to be offset**

In determining the amount of tax to be a contribution to the budget, the recipient of the goods (works, services) has the right to offset the

amounts of VAT paid (payable) for goods, works and services, if they are used or will be used for purposes of taxable turnover and if the following conditions are met:

1. The recipient of goods (works, services) is the payer of value added tax;
2. Supplier invoiced on the sold goods (works, services), which separate the allocated amount of VAT;
3. In the case of imported goods - the value added tax paid to the budget;
4. In cases producing works and services from non-resident - the value added tax is included in the actual budget.

On imported goods (works, services) there is the basis for offsetting the cargo customs declaration (CCD), and the declaration of customs value (TPA), the adjustment of customs value (CCC) (acts of works, services) and payment documents confirming the actual payment value added tax. On imported goods the sum of value added tax to be offset, the tax amount is calculated in accordance with established procedures on the basis of the customs value declared by the importer (contract value), which will be used for the implementation of the taxable turnover. If the value-added tax on importation of goods is not calculated from the customs value declared by the importer and the customs of the estimated value, calculated by the customs authorities for the payment of customs duties, the difference between the tax actually paid during the customs clearance and to be offset refers to the purchase price imported goods.

**Not subject to offset the amount of tax:**

- a) purchased goods (work, services) used by enterprises, exempt from value added tax, as well as producing goods (works, services) are exempt from value added tax;
- b) on purchased goods (works, services), not related to the business activity of the taxpayer.
- c) on the acquired fixed assets and intangible assets used for their own production needs;
- g) on making the goods (works, services and material resources) as a contribution to the charter capital of the company at their subsequent sale or use for taxable, non-taxable turnover and not for business.

While on imported goods (works, services and material resources) listed as a contribution to the charter capital of the company at their subsequent sale or use for the taxable turnover, the amount of VAT paid are offset in the normal manner.

d) if the amount of value added tax passes on purchased goods (works, services) in the reporting period attributable to the test, and in subsequent periods, these material resources were not used in business and not for the taxpayer's taxable supplies, then these (subsequent) periods produced adjustment of turnover and the amount of tax in paragraphs 3-5 Calculation of value added tax.

### **Invoices and how to fill them**

Since January 1, 1998 mandatory for all (including for small and medium-sized businesses, retail and catering businesses exempt from VAT in accordance with applicable law) is billing invoices when selling goods or providing services, works.

Enterprises selling goods, performing works and rendering services not subject to value added tax, as well as companies with tax breaks on value added tax, the amount of value added tax on the invoice and do not indicate a stamp (or make inscription) " without value added tax. " Invoice is issued in the currency of the Republic of Uzbekistan - UZS. Invoice is made now-supplier (contractor, executor) to the enterprise buyer (customer) in at least two copies, the first of which is not later than the date of shipment of goods (works, services) represented the buyer and supplier entitles the buyer to Ladder (compensation) amounts of VAT.

The second copy of the invoice is from the supplier. Invoices are due to mandatory accounting books record receipts and billing. That is necessary to conduct two books of registration of invoices:

- ☐ issued to customers (customers);
- ☐ received from suppliers (contractors).

Invoice on imported goods (works, services) are the cargo customs declaration (CCD), declaration of customs value (TPA), the adjustment of customs value (CCC), the act of work performed, services rendered and payment documents confirming the actual payment of our value added . Invoice for exported goods (works, services) is a customs declaration. You can specify the size of the total turnover if such an invoice accompanied by a document that specifies the list of goods (work, services). In this invoice you must indicate the number and date of the document, as well as its name.

### **Terms tax calculations and reporting**

Calculations on the value added tax to represent the company in the state tax authorities in their place of tax registration cumulative monthly

no later than the 15th of the month following the reporting month and for the year - at the time of submission of annual financial statements.

Based on actual sales turnover for the relevant month, including amounts charged to credit, enterprises pay the value added tax to the 15th of the following month. In the case of payment now unnecessary amounts of taxes and fees in the absence of tax debts and dues, these are refunded within thirty days of the company at his written request, or counted against future payments.

### **Calculation of the amount of VAT payable to the budget**

Tax settlements pass value added cumulatively presented in the following form:

#### **Payment of value added tax**

Indicators	page	amount
The cost of actually received raw materials, components, fuel, services for the reporting period derived from Cheatham-invoices without VAT	1.	
– <input type="checkbox"/> including imported	2.	
Of them will be used for taxable turnover, including turnover machine zero,	3.	
– <input type="checkbox"/> including taxable turnover for exports	4.	
VAT amount are offset	5.	
Cost shipped goods (works, services), excluding VAT, breathes:	6.	
– not subject to value added tax (reference for benefits attached)	7.	
– taxed at a zero rate	8.	
– including for exports	9.	
– subject to value added tax at the prevailing	10.	
VAT rate	11.	
The amount of VAT charged for shipped goods (works, services) (p 10 x p 11)	12.	
Amount of tax imposed on the calculation (p. 12 - page 5)	13.	
VAT amount calculated according to the previous calculation (p. 13 of the previous calculation)	14.	
Amount of value added tax (page 13 page 14) to surcharge	15.	

– to decrease	16.	
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As mentioned above, the value added tax payable to the budget, calculated as the difference between the amount of tax assessed on taxable turnover and the amount of tax to be offset. Therefore, expecting to be paid to the amount of VAT you must define two indicators - the amount of tax assessed on taxable turnover and the amount of tax to be offset. How to fill in form VAT calculation. Aversion for the reporting period from January to March the following data:

- the actual cost of incoming raw materials, works and services by receiving the invoice that will be used for taxable turnover – i.e. the sum of 7500;
- Value of goods shipped, taxed by VAT at current rates - 32000 tons Aggr;
- The amount of value added tax, calculated at the previous calculation (in February) - 3100 tons sum;
- March was produced returns of defective material on which VAT paid previously was taken to amounting to 15 tons sum.

### **VAT on imports**

Object of taxation on value added products are imported into the territory of the republic (including goods imported from CIS countries), according to the customs and laws of the Republic of Uzbekistan. On imported goods from 25 April 2002 to guide instruction "On the procedure of calculation and payment of value added tax in respect of goods imported into the territory of the Republic of Uzbekistan» (№ 1124 from 15.04.2002).

Payers of value added tax on imported goods are:

- Legal persons importing these goods;
- Individuals, supplying goods for their own needs above the norms of import duty (i.e. worth more than \$ 1,000).

Goods imported by individuals for commercial purposes are not subject to VAT, and are subject to uniform customs duties.

Value-added tax may be paid directly by the declarant or any interested person, unless otherwise provided by law.

Basis for calculating the value added tax on imported into the territory of the Republic of Uzbekistan is the customs value of the goods determined in accordance with instructions for determining the customs

value of goods imported into the territory of the Republic of Uzbekistan, registered by the Ministry of Justice of 13 January 1998 K 390.

In the taxable turnover for the importation of goods, along with the customs value, include the amount of customs duties and excise tax amount (on excisable goods).

Value added tax on imported goods is calculated by the following formula:

$VAT = (C_t + P_u + A_c) \times N/100$ , where: VAT - the amount of value added tax; Art - the customs value of imported goods; Sun - the amount of customs duties; Ace - the amount of excise duty on excisable goods; H - value-added tax rate as a percentage.

Imports of goods are exempt from value added tax:

- a) goods intended for the official use of foreign diplomatic and similar representations;
- b) goods intended for personal use, including goods of first installation, the diplomatic staff of diplomatic and similar representations and members of their families living with them, and not citizens of the Republic of Uzbekistan;
- c) the initial setting-up products imported administrative and technical staff of foreign diplomatic and similar representations, including members of their families living with them if they are not citizens of the Republic of Uzbekistan or do not reside permanently in the Republic of Uzbekistan;
- d) goods imported into the territory of the Republic of Uzbekistan to assist as a result of natural disasters, armed conflicts, accidents or accidents in humanitarian aid and gratuitous technical assistance, as well as goods imported for charitable purposes by states, governments, international organizations .
- e) goods imported by individuals within the norms of duty-free entry;
- f) equipment imported into the customs territory of the Republic of Uzbekistan:
  - For investment projects financed by foreign loans guaranteed by the government;
  - Newly constructed and reconstructed enterprises specializing in the production of consumer goods;
  - Foreign investors as their contribution to the charter capital of enterprises with foreign investments;
  - pipes of various sizes for the oil and gas industry of the country;

- in accordance with the duly approved projects to create new, as well as upgrading and modernization of existing facilities, with the appropriate approval of an authorized bank;
- for leasing, with the appropriate approval of an authorized bank- for privatized enterprises on account of investment obligations of the foreign investor;
- imported testing laboratories used in laboratory research and testing products (RMB number 349 from 22.07.2004 ).
- g) equipment and materials imported by legal entities, including non-residents of the Republic of Uzbekistan, through loans and grants provided by international and foreign governmental financial and economic organizations under contracts (agreements) concluded by the Republic of Uzbekistan;
- h) raw materials and intermediates for use in its own production, imported by the enterprises with foreign investments, specializing in the manufacture of children's shoes;
- i) for the importation of imported drugs and medical products;
- j) imported computer equipment and accessories to it, software.

These exemptions do not apply to consumer goods imported by legal entities, except for items specified in paragraphs "a", "b", "c", "f", "g", "h", "i", "m" ,

According to the Resolution of the Republic of Uzbekistan from 02.11.2000, N 424: released as an exception from paying value added tax tractor fleet for work performed at the request of agricultural enterprises in 2000-2005, with the target direction resulting from this benefit funds for the reduction of prices and tariffs for field work.

Also released in 2000-2005 Enterprise Uzsels hozsnabremont from:

- Customs duties (excluding charges for customs clearance) for import of agricultural machinery, accessories and spare parts imported by government decisions;
- Accrual and payment of value added tax in the implementation of purchased agricultural machinery, accessories and spare parts to agricultural enterprises and tractor fleet.

In accordance with the decision of the MOF, the STC, the Customs Committee (Reg, MJ number 1366 from 24.05.2004), project participants, importing goods, in the implementation of activities at the expense of loans from international financial institutions and foreign government agencies, do not pay VAT on imports (works, services).

### **Procedure and terms of payment of VAT on imported goods**



When importing goods into the territory of the Republic of Uzbekistan VAT paid prior to or simultaneously with the acceptance of the customs declaration. If the customs declaration was not filed within the period set by the Customs Code of the Republic of Uzbekistan, the terms of payment of value added tax shall be calculated from the date of the deadline for submission of the customs declaration.

Value-added tax paid on imported goods to the customs authority, the customs clearance of goods. Value-added tax is paid in the national currency - sum. Individuals can pay the tax in cash at the cash desk of the customs authority or post in the prescribed manner. Responsibility for proper charging of value added tax takes the customs authorities.

### **Settlement of VAT on imports of goods**

Imported goods is the basis for offsetting the cargo customs declaration (CCD), and the declaration of customs value (TPA), the adjustment of customs value (WHO) and payment documents confirming the actual payment of value added tax. On imported goods the sum of value added tax to be offset, the tax amount is calculated in accordance with established procedures on the basis of the customs value declared by the importer (contract value), which will be used for the implementation of the taxable turnover.

If the value-added tax on importation of goods is not calculated from the customs value declared by the importer and the customs of the estimated value, calculated by the customs authorities for the payment of customs duties, the difference between the tax actually paid during the customs clearance and to be offset refers to the purchase price imported goods.

## **Lecture 6. EXCISE TAX**

### **Plan**

1. Economic content and design features of excise.
2. Features of calculation of excise duties on domestic excisable goods.
3. The object of taxation for excise goods.
4. Features of calculation of excise duty on certain goods.
5. Ladder excise tax.
6. Excise tax privileges.
7. Excise tax for imported goods.

Economic content and design features of excise. From the perspective of tax psychology all taxes on consumer goods, including

excise have an advantage: they are invisible to the eyes in the price of goods, which the buyer pays, without being aware of the exact magnitude of the tax embedded in the price of goods. This makes the indirect taxes that would be better called invisible, beloved child of governments.

Excise tax - a kind of indirect taxes on goods and services included in the product price or rate, but unlike the value-added tax are limited to certain species and their groups. The word "excise" is of French origin and means "to cut off." Hence, the specificity of this payment. Excise taxes included in the price of goods and allow the state to remove or "cut off" part of the cost, which does not reflect the efficiency production or special consumer properties, and is only a consequence of the special conditions of production and sale of excisable goods called.

The main distinguishing features of excise are the following:

- Excise often arise if the equilibrium price on an item, such as vodka, tobacco, coffee (for Uzbekistan - as cottonseed oil), steadily and significantly deviates from production costs. Using state excise removes the portion of the cost, which is not about the actual performance of its consumer goods and properties, and is only a consequence of the special conditions of production and sales. If the government had not withdrawn the excise, the manufacturers of excisable goods would have unfairly high profits.

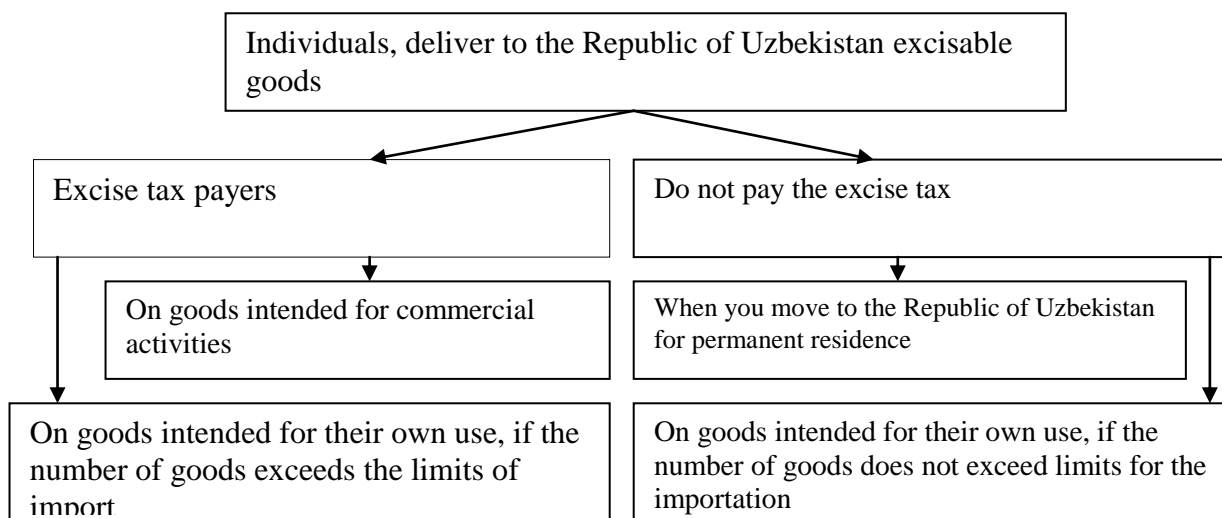
- Excise goods may be placed on the consumption of which society considers useful, spirits, tobacco and petrol. Thus, excise taxes are an instrument of control of consumption. With their help, the government is trying on the one hand, to restrain the irrational consumption goods (tobacco, wine - vodka products, etc.) that can harm human health, society and the environment, and on the other, to raise funds for overcoming the possible consequences of consumption of such goods. This is to some extent provides tax support of the population, which seems fair that consumers who are fond of alcohol, smoking, polluting cars should at least pay for this state, and the more wine bottles, cigarette packs or liters of gasoline will be purchased more money received by the state.

- Like all indirect taxes, excise perform distinct fiscal function, that is good enough to replenish the budget. Previously excise levied luxury or high-income areas and activities. With the growth of material well-being of the general citizens, and expanded the scope of socially justified

application of excise duties. Evolution of indirect taxes, so was the following: from single taxation coterie of goods to multiple taxation of virtually all goods at all stages of processing and implementation, i.e. from the excise tax on turnover and then to the value-added tax.

- Excise taxes are also used to regulate the process of pricing in natural monopolies (which explains the presence of the current legislation as excisable goods - gas, oil).

Excise duties levied on goods manufactured in the territory of the Republic of Uzbekistan and imported into its territory. Excise rates approved by the Cabinet of Ministers and can be installed: - a percentage of the value of the goods - the ad valorem rates; - An absolute amount per unit in volume - fixed rates. It should be noted that in Uzbekistan, unlike many developed countries, the excise tax is imposed on a wide range of products and basic commodities, such as cottonseed oil, rice, soap, and many others. i.e. violated the basic principle of excise taxation: taxation of goods, demand for which is almost independent of their growth rates - it's basically luxury items and goods that are harmful to the health of citizens and society as a whole.



### **Features of calculation of excise duties on domestic excisable goods**

For domestic products should refer to number 1325 dated 15.03.2004 "On the procedure of calculation and payment of the excise tax entities for goods manufactured in the Republic of Uzbekistan."

According to this guideline:

Excise tax is a part of the net income contributed (seizures) in the budget in the form of stagnant tax, which is calculated in both price and basis of taxation on value added. Excise tax payers are legal entities, irrespective of ownership, producing excisable goods. By tax purposes under the legal entities are also understood subdivisions, owning, in economic

management or operational management of the property and to meet its obligations with this property, as well as its own balance and current account.

**The object of taxation for excise goods are:**

- Product to which a fixed tax rate - the volume of sales in volume terms. This group includes: alcoholic beverages, tobacco products, vegetable oil.
- For other excisable products - the cost of shipped goods at bargain prices (includes the amount of the excise tax), excluding value added tax.

Excise goods passed gratuitously, is also subject to taxation. In this case the objects of taxation are:

- Product to which a fixed tax rates - the data volume products in bulk;
- For other excisable products - the price calculated on the basis of the calculated level (wholesale) prices prevailing at the time the taxpayer transfer of goods, but not less than actual costs for the production of this excise goods.

When calculating the excise tax on products from raw materials sales turnover of products subject to excise tax, determined by:

- Product to which a fixed tax rate - based on the volume of finished products;
- On another product - based on the cost of works for the production of finished products and the cost of raw material.

Excise tax payer in this case, the company is realizing the excisable goods. Excise tax on goods marked with excise stamps shall be calculated in the normal manner, Nominal value of excise stamps shall not be counted against the payment of the excise tax, and refers to the expenses of the period. The excise tax amount is determined by the following formulas.

1. According to the products to which a fixed excise tax, including:

1.1. Excise tax rates are set to 1 liter of anhydrous ethyl alcohol of alcoholic beverages (except dry wine and champagne)

$$(P \times A) / 100\%$$

where: P - castle finished alcohol products (%) (irrespective of the raw material from which the alcohol is cooked);

A - a fixed rate of excise duty per unit of measurement in the sumac.

1.2. Excise tax rates are set per unit of finished product (dry wine, champagne, beer, wine, ethyl alcohol, and tobacco products, and vegetable oils)

$P \times A$ ,

where: P - physical volume of sales in the respective units;

A - a fixed rate of excise duty per unit in sums

2. Excise tax on other products, which set interest (ad valorem) rate, determined by the following formula:

$$(D \times A) / 100$$

where: A - the price includes excise tax, VAT excluded;

A - excise tax rate as a percentage.

To calculate the amount of the excise tax is the price of the finished product (including excise tax) by the following formula:

$$O = (G * 100) / 100 - A$$

Where:

O - price including VAT excise tax;

C - design (wholesale) price of the company (regulatory costs and profit margins);

A - excise tax rate.

Example of calculation of excise duty on excisable products on which rates are set as a percentage.

### **Features of calculation of excise duty on certain goods**

On alcoholic beverages.

Excise tax on alcoholic beverages, payable to the budget, determines the difference between the amount of tax calculated at statutory rates and the tax amount that is transferred to the special account of HC "Uzplodoovoshvinprom-holding."

Enterprises producing alcoholic beverages, serving banks open a separate account for the accumulation calculated at the rate is set excise tax to be transferred HC "Uzplodoovoschvinprom Holding", which is transferred to the account of the company not later than every ten days for payment of excise tax.

Excise tax attributable to HC "Uzplodoovoschvinprom-holding" is sent to the special account of the company, subject to the now established forecasts payments excise tax on alcoholic beverages and it has no arrears on the specified type of tax.

Example of calculation of excise tax payable to the budget of alcoholic beverages (1 liter)

№		brandy	vodka	dry wine
1	The volume of alcohol contained in the finished product (%)	42	40	

2	Excise tax rate			
a)	(sum. 1 liter of anhydrous ethyl alcohol)	4 000,0	2 660,0	
b)	Sum for 1 liter of finished product	-	-	273.9 1
3	The amount of accrued excise tax			
a)	(p 1 x p 2a / 100) (1 sum.. Metropolitan finished product)	1 680,0	1 064,0	
b)	(p. 26) (sum. for 1 liter of finished product)	-	-	273,9
4	Excise tax, the special account of HC "Uzplodoovoschvinprom-holding"			
a)	(sum. 1 liter of anhydrous ethyl alcohol)	60,0	60,0	
b)	(sum. for] liter of finished product)	-	-	12,0
5	The excise tax amount for the special account of HC "Uzplodoovoschvinprom-holding"			
a)	(p 1 x p 4a / 100) (sum. for 1 liter of finished product)	25,2	24,0	
b)	(p. 46) (sum. for 1 liter of finished product)	-	-	12,0
6	The excise tax amount payable to the budget			
a)	(p. Over - page 5a) (sum. per 1 liter of finished products)	1 654,8	1 040,0	-
b)	(page 36 - page 56) (I sum. per liter of finished product)	-	-	261,9

Note.

For example, the implementation of 10 thous. vodka gross amount of the excise tax (without taking account of the excise tax on alcohol) is (1064 x 100 000) - 106.4 million sum., including from it:

- Transferred to the special account of HC "Uzplodovoschvinprom-holding" (24.0 x 100,000) = 2.4 million sum.;
- Payable to the budget (1040 x 100 000) = 104 mln.

On vegetable oil (cotton)

The amount of excise tax payable to the budget with vegetable oil (cottonseed) edible, except oil, used for the production of hydrogenated

fat and butter "Uzbekistan" is the difference between the amount of tax calculated on the generally established rate and the amount of tax paid into a special account . While excise tax amount is sent to the Special Account, subject to the targets set and the absence of arrears of excise tax on vegetable oil (cottonseed). Enterprises producing vegetable oil (cottonseed) refined, serving banks open a separate account but accumulation calculated in the prescribed amount of the excise tax, which is transferred to the account of the company every ten days, no later than the dates of payment of excise duty.

### **Ladder excise tax**

In the case of production of goods from raw materials (products) on which excise duty has been paid on the territory of the Republic of Uzbekistan, the amount of excise tax paid on raw materials (products) on the cost of production does not apply, and shall be credited in determining the amount of excise duty payable budget in the realized volume of finished products,

To monitor the amount of excise tax to be offset providers excisable raw materials (products) should allocate invoices the amount of excise tax on raw materials shipped (products).

In case the amount of the excise tax on raw materials purchasing excise (products) in the invoice is not allocated, by calculation, it is not calculated and offset by the finished product is not accepted.

Excise tax on raw materials purchasing excise (products), which subsequently be offset recorded in a separate open accounts "Excise tax on purchasing excise raw materials (products)" (in the group accounts 4400 "Accounts excluding advance payments to the budget") and is written as debit account of arrears to the budget share attributable to volume and production (taxable turnover).

Not subject to offset the amount of the excise tax assessed on oil and gas condensate in the production of gasoline, diesel and jet fuel.

Example of set-off for alcoholic beverages (vodka "Jubilee")

1.	The volume of alcohol contained in the vodka (%)	40
2.	Excise tax rate vodka (sum. for 1 liter of anhydrous ethyl alcohol)	2660
	a) Including the amount of the excise tax, the special account of HC "Uzplodoovoschvinprom-holding"	60
3.	Excise tax: (sum for 1 of vodka)	
	a) charged on finished products (p. 2 x p 1/100 * 10)	10640

	b) the special account of HC "Uzplodoovoschvinprom-holding" (str.2ahstr. 1/100 * 10)	240
4.	4 Rate of excise duty on ethyl alcohol (sum for 1 of Alcohol)	8510
5.	Excise tax on alcohol used for the production of 1 gave. finished products to be offset (p. 4 x 1 p. / 100) (sum for 1 of vodka)	3404
6.	Excise tax on vodka, payable to the budget (p. Over - page 36 - page 5) (sum for 1 of products)	6996

From 1 January 2004 it is set:

- ☐ uniform procedure for taxation of ethanol excise tax, providing for the implementation of ethanol for all consumers with charging excise tax in fixed sizes (sumac) per unit. When this amount of excise tax paid by enterprises - manufacturers of excisable goods in the cost of alcohol, are offset when calculating the excise duty on the finished product. A similar rate and the counting rules of the excise tax on alcohol; introduced for companies producing alcohol for their own consumption;
- ☐ calculation of excise tax on beer and wine materials at the rates established in fixed sizes (sumac) per unit. While wine stocks sold to all consumers, including businesses HC "Uzplodoovoschvinprom-holding" and the Ministry of Agriculture for the production of wine, with charging excise tax, which are offset in the manufacture of finished excisable products.

While maintaining the overall rate of excise duty on vegetable oil at a rate of 79 per cent reduced rate of excise tax on cottonseed oil technical (unsuitable for inclusion in the food, with an acid number greater than 0.3 mg KOH / g to 67 percent).

### **Excise tax privileges**

Excise tax does not apply:

- a) delivery of excisable goods for export, except for certain products, which can be determined by the Cabinet of Ministers of the Republic of Uzbekistan;
- b) the supply of cotton oil, used for the production of hydrogenated fat and butter "Uzbekistan";
- c) Specialized furniture for the needs of public education and health, produced in Uzbekistan.

Under specialized furniture in order to provide benefits of furniture understood, it is implemented:



- to equip public and private educational and medical institutions;
- subordinated supply and sales organizations to equip the education and health systems.

Implementation of this furniture to consumers otherwise it is subject to the excise tax standard procedure.

This exemption is subject to availability of contracts (agreements) concluded for the purchase of specialized furniture for education and health systems.

In accordance with the Cabinet of Ministers on November 13, 2002 N 390 "On measures to stimulate consumer goods market saturation and improve mutual relations between producers and trade organizations" enterprise producing excise non-food consumer goods (except tobacco, jewelry, and household soap toilet and petrol) are exempt from excise duty in the budget provided earmarking released funds to increase production, diversification and competitiveness of manufactured consumer goods.

### **Excise tax rates**

Excise tax on excisable goods manufactured in the Republic of Uzbekistan approved by the Cabinet of Ministers and can be installed:

- ☐ a percentage of the value of the goods - the ad valorem rates;
- ☐ an absolute amount per unit in volume - fixed rates.

### **Discharge of Excise Tax**

The excise tax amount calculated based on the actual payers sales volume shall be paid to the budget in the following terms;

- Up to 13 of the current month - the first decade of the current month;
- Up to 23 of the current month - for the second decade of the current month;
- Up to 3 of the following month - for the remaining days of the reporting month

Implementation date shall be the date of shipment of products specified in commodity producing documents. Received amount of excise tax payments are reflected on ten-day state tax authorities in the personal accounts of taxpayers simultaneously in columns "accrual" and "payment" tax. The taxpayer is in the tax authority where it is registered, excise tax calculations (separately for alcohol and other products) on a monthly basis by the 20th of the month following the reporting period, with the annex a breakdown of non-taxable turnovers. Amount of excise tax payments made during the ten-day reporting period, are offset in the

amount of tax calculated on the calculation of the respective reporting period.

### **Excise tax for imported goods**

Excise tax for imported goods are set in solid value to the physical volume of imports (specific rates) or% of customs value (ad valorem) specified in the cargo customs declaration.

- When you import of excise goods into the customs territory of the Republic of Uzbekistan, against which fixed excise rates, the tax base is defined as the volume of imported excisable goods in kind.
- When importing excisable goods in respect of which ad valorem excise rates, the tax base is defined as the customs value of imported excisable goods, determined in accordance with the customs legislation of the Republic of Uzbekistan.
- In this so-called distinguished, combined rates. With combined rates, and provides for the use of solid and ad valorem; adopted the one that provides the greatest amount of excise tax.

In accordance with the Regulations "On the procedure for payment of excise tax on imported into the Republic of Uzbekistan corporations and individuals selected commodities", registered by the Ministry of Justice of the Republic of Uzbekistan of 05.03.2002 № 1101 excise tax applies to imported into the Republic of Uzbekistan legal and physical limes excisable goods on lists and rates under the provisions of the Cabinet of Ministers.

<b>Number of commodity group</b>	<b>Description of goods</b>	<b>Item Code by Commodity FEA</b>	<b>Standards for importing goods not subject to excise tax (per person)</b>
1	2	3	4
09	Coffee roasted or unroasted caffeinated or decaffeinated	0901	2 kg
16	Sturgeon caviar	160430100	0,5 kg
	caviar substitutes	160430900	1 kg
17	confectionery	1704	5 kg
18	Chocolate bars and briquettes more than 2 kg	380620	5 kg
19	Cereal products, cereals, starch and flour, pastry	19	10 kg

20	Preparations of vegetables, fruit, nuts or other plants	200110-200190200, 2002, 2006-2009	5 kg
21	Mixed food	21	2 kg
22	beer	2203	2 l
	Soft drinks, juices (except citrus)	2202, 220950-220980	2 l
	Weight types of alcoholic beverages (except beers)	2204-2206, 2208	2 l
	Ethyl alcohol *	2207	-
24	All types of tobacco products	240210000 240220000 240290000	cigarettes, cigars, cigarettes in packs of 10
27	petrol	271000250	40 l fuel tank over the content established by the manufacturer of vehicles
33	perfumery	33	2 pcs. each denomination
34	autocosmetics	34	2 pcs. each denomination
	Detergents, cleansers	3402	5 кг
42	Articles of leather and imitation leather, other than school bags and satchels	420212 420310000	by 1 unit. of each item, but no more than 3 units.
	Clothing and clothing accessories, of leather	4203	by 1 unit. of each item, but no more than 3 units.
43	Outerwear and headgear of fur	43	by 1 unit. of each item, but no more than 3 units.
57	Carpets and rugs	5701-5705	15 кв.м
61	Jerseys or crocheted	61	by 1 unit. each denomination
63	bedclothes	6302	5 sets

69	ceramics	6904,6905,6907,6908,6910,6911,6913,6914	1 set, but no more than 24 units
70	Utensils from crystal	701321	1 set but no more than 12 units
71	Jewelry made of precious metals and precious stones	71	5 items weighing less than 30 grams
	bijouterie	7117	not more than 0.5 kg
82	Kitchenware, knives, spoons, forks and other base metal, including precious metals covered	8211,8215	1 set, but not more than 24 units
85	Video and audio equipment	8528,8521,8520	by 1 unit. of each item, but no more than 3 units.
87	Cars (including used) *	8703	-
91	All kinds of watches	91	2 un.
94	Furniture (except medical) *	94 (except 9402}	-
	Chandeliers, lighting equipment	940510	2 un.

Note. Guise, or product name refers to the specified amount of goods or articles imported by an individual.

Limits of exempt from excise duty import are not installed on cars, furniture and ethyl alcohol.

Import limits individuals on the territory of the Republic of Uzbekistan of goods that are not subject to excise tax applies to all individuals - both residents and non-residents of the Republic of Uzbekistan, except for goods entering the address of individuals from outside the Republic of Uzbekistan (except for international mailings).

Excise tax rates and limits do not apply to goods (except vehicles) imported by individuals when moving to the Republic of Uzbekistan for permanent residence.

The excise tax does not apply to:

Exemption repealed in accordance with the Law of Uzbekistan № 714 - 1 from 03.12.2004

- ☐ goods imported into the customs territory of the Republic of Uzbekistan entities as humanitarian aid and to provide technical assistance grant;
- ☐ imported computer equipment and accessories thereto, software;
- ☐ testing laboratories imported technological equipment used in laboratory studies, testing products (RMB Allowance introduced from 22.07.2004 № 349 );
- ☐ goods imported by project participants in the implementation of activities at the expense of loans from international financial institutions and foreign government organizations (DC MF, STC, the Customs Committee. Reg. DOJ number 1366 from 24.05.2004).

### **Procedure for calculating the excise tax on imported excisable goods**

There are three options for payment of excise tax on Import of goods.

1) For the calculation of excise duty on beer, alcohol and tobacco products taxable turnover is determined by the following formula:

$O = C \times 100 / (100 - A)$ , wherein

O - taxable turnover;

C-customs value;

A - excise tax rate.

Excise tax in sums determined by the following formula:

$O \times A / 100$  where

O - taxable turnover;

A - excise tax rate.

That is the calculus is made in the same manner as for produced on the territory of Uzbekistan excisable goods. Here the definition of customs value of imported goods shall be in accordance with instructions for determining the customs value of goods imported into the territory of the Republic of Uzbekistan, registered by the Ministry of Justice on January 13, 1998 N 390. For other types of imported excisable goods excise tax amount is determined by the U.S. dollars per unit or as a percentage of the customs value. When this is taken into account the customs value of the goods specified in column 45 of the cargo customs declaration, but converted in scrip rate of the Central Bank of the Republic of Uzbekistan at the time of customs clearance of goods.

2) As a percentage of the customs value of the amount of the excise tax is determined by the following formula:

$C \times A/100$  where

C - the customs value;

A - excise tax rate as a percentage of the customs value.

3) Calculation of excise duty in respect of goods that are subject to fixed rates, according to the formula:

$X \times A/100$ , where:

In - the quantity of goods;

A - excise tax rate per unit - Item.

Used as combined excise tax (similar to their use in the calculation of customs duties).

Application of an ad valorem excise tax

Example of calculation of the tax on imported spirits

The customs value of 1 unit in-sumac! 3080sum.

In this case, the applicable ad valorem tax rate - 15%.

Excise  $13080h = 15: 100 = 1962$  sum.

### **Application of the combined excise tax**

Example of calculation of the tax on imported tobacco products.

The customs value of one thousand pieces sumac - 8.0 million soums

\* Included in the customs value the cost of transportation, loading, unloading, handling and transshipment, the sum insured and others. In this case, set a combined excise tax rate - 50%. but not less than U.S. \$ 7 per 1,000. With combined rates, and provides for the use of solid, and the ad valorem rate is adopted that which provides the greatest amount of excise tax.

Ad valorem rate applied to the price, which includes excise duty, that is taxable turnover.

Taxable turnover =  $(8000 \times 100) / (100 - 50) = 16000$  sum.

Excise =  $16,000 \times 50\% = 8000$  UZS.

This amount is more than U.S. \$ 7, as the course at the time of customs clearance: 15982 sum. Therefore, the amount of excise tax payable is 8000 sum.

Payers of excise tax on imported excisable goods subject to mandatory labeling shall pay 100% of the amount of excise tax calculated on the contractual (stated) value at purchase of excise stamps, with the nominal value of excise stamps shall be paid over the amount of excise tax credited to the republican budget. When importing marked excisable goods excise tax amount is recalculated on the basis of the customs value.

### **Procedure and terms of payment of excise duties in the budget**

Excise tax on excisable goods imported into the territory of the Republic of Uzbekistan, made prior to or simultaneously with the payment of other customs payments. Confirming payment of the excise tax payer is a payment order with the bank acceptance payable, provided along with the completed GTE. Control over the budget in excise taxes levied on imported and exported goods by the customs authorities.

Note:

- 1) Excise duty rates specified in fixed sizes, revise the Ministry of Finance of the Republic of Uzbekistan for the year, based on the dynamics of prices and volume of sales.
- 2) The rate and method of payment of excise duty on cotton, as well as bid on jewelry set by the Ministry of Finance of the Republic of Uzbekistan.
- 3) Taxpayers and method of payment of the excise tax on cars "UzDaewoo Auto" is set by the Ministry of Finance in consultation with the State Tax Committee of Uzbekistan.
- 4) Bids are given a weighted average. The specific size of rates of excise duty payers and order of payment established by the Ministry of Finance in consultation with the State Tax Committee of the Republic of Uzbekistan.

## **Lecture 7. PROPERTY TAX**

### **Plan**

1. Property tax of legal entities.
2. Taxpayers.
3. Subject to taxation.
4. Tax breaks on property.
5. Mechanism for calculating and paying property tax.
6. Property tax rates.
7. Personal property tax.
8. Tax exemptions.

### **Property tax of legal entities**

Taxation of property of enterprises carried out in accordance with the Tax Code of Uzbekistan and the Regulations "On the procedure of calculation and payment of the budget of the property tax to the individual" .

### **Taxpayers**

Payers of property tax are legal persons having taxable property, except:

- micro and small enterprises - the single tax payers;
- agricultural producers - single tax payers - the core business;
- legal entities engaged only in entrepreneurial activities for which payment of the flat tax;
- legal entities engaged in the organization of lotteries, sweepstakes and other risk-based principal activity. In this case, if the legal person for which a special taxation, along with the main activity involved in other activities, they need to keep separate records and pay property tax in accordance with law. Payers of single tax payment from 2002 pay property tax on property (plant and equipment Intangible assets) leased.

For tax purposes, legal persons are also subdivisions, owning, economic management or operational management of the property and to meet its liabilities. Property, as well as having its own balance and current account.

### **Subject to taxation**

The object of taxation is the average net fixed assets (excluding the cost of land acquired in the property in accordance with the law) and intangible assets, as well as the cost is not completed in a timely facility construction and installed in standard terms of equipment. Thus for an undetermined time in the regulatory equipment (unused equipment) tax is paid at the double rate.

### **Tax breaks on property**

Not taxed property:

- a) non-profit organizations, except for property used for business;
- b) used for the needs of public education institutions and culture;
- c) enterprises of housing and communal services and other municipal facilities civil use;
- d) an enterprise, the total number, employing no less than fifty percent of the disabled, owned by public associations of the disabled, the Fund "Nuroni" "Chernobl and the Association of Uzbekistan ", except for trading, brokering, supply and procurement activities;
- e) The newly established enterprises within two years from the date of registration. These exemptions do not apply to enterprises established on the basis of production capacities and fixed assets liquidated (reorganized) companies, their subsidiaries and divisions, as well as enterprises created at enterprises, provided that they are working on equipment leased from these enterprises.



g) equipment purchased by foreign loan on the maturity of the loan, not exceeding five years.

Wherein said benefit applies:

- And equipment acquired prior to the enactment of the above benefits, provided that at the time the benefits repayment period has not expired. If this period has not expired, then the preference applies to the remaining term of the loan, since the inception of the benefits, but not more than five years;
- Only for the period of repayment of principal on the loan in accordance with the terms stipulated in the loan agreement (contract), but not more than five years;
- The entire cost of the equipment, including the cost of delivery, installation and commissioning work on the balance of the payer in accordance with statutory accounting rules.

### **Mechanism for calculating and paying property tax**

The average annual value of the company property is determined by dividing by 12 the amount obtained by adding half the cost of the property as of January 1 of the reporting year and on 1 January of the year following the reporting year, and the amount of value of the property on the first of every month all the other months of the reporting period to the next Formula:

The average annual value	$= \frac{\frac{\text{for 1 jan.}}{2} + \text{to 1 feb.} + \dots + \text{to 1 dec} + \frac{\text{for 1 jan}}{2}}{12}$
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If the property was put into effect in the first half of the month, when calculating the average annual net value of the property taken as input month full month.

For example, plant and equipment acquired on April 12.

In this case, their average value is calculated from April 1.

If the property was put into effect in the second half of the month, the average residual value is calculated from the first day of the month following the month in action.

For example: fixed assets acquired on October 23.

In this case, their average value is calculated starting from November 1.

To determine the taxable base amount accepted for the following accounts of accounting (net of depreciation)

fixed assets account;

account accounting leased fixed assets;

account of intangible assets;  
 accounts include capital investments in the part not completed on time the construction project;  
 account accounting equipment to be installed - in terms of uninstalled equipment in normative terms.

Since the amount of property tax depends on the residual value of fixed assets and intangible assets, it is important to correctly identify. And since the residual value depends on the accumulated depreciation, therefore, particularly question rates on the proper application of depreciation. And it should be borne in mind that, if an entity applies according to its policy of depreciation methods other than the method established by the Tax Code (uniform rectilinear), then for tax purposes should be calculated depreciation only uniform straight-line method at the rates set forth in Article 23 of the Tax of Uzbekistan.

In other words, if an entity applies its accounting policies in accordance with the depreciation methods other than the uniform rectilinear, he will have to consider depreciation twice; once - for accounting - a method approved by the accounting policies, other times - tax accounting - uniform straight-line method.

When calculating the amortization of intangible assets it is necessary to remember the provisions of Article 24 of the Tax Code of the Republic of Uzbekistan, according to which it is determined monthly at the rates calculated on the basis of the original entity of intangible assets and the useful life (but not more than the period of the legal entity).

Of intangible assets, which is impossible to determine the useful life, the depreciation rates are set based on five years (but not more than the period of the legal entity).

Half of the sum of the residual value of the property is on the first day of the first month of the reporting period and on the first day of the month. Average residual value following the reporting period, and the property value on the property for the calculation = each first all other months of the reporting period tax for the reporting period 12 months.

Together with the calculation of property tax appears as a list of the property, which are not charged tax, indicating its value and term of the benefits in the following form:

	The property is not subject to taxation	value of property
1	housing and socio-cultural sphere	
2	Used for environmental, health and treatment	

	goals and fire safety	
3	Means of Communication (incl. Autodor.) link energopered, and structures. for support. Par. state	
4	communication satellites	
5	canned by decision of the Cabinet	
6	gorpasstransport (except taxis, including shuttle), public transportation vehicles, impl. transportation of passengers, suburban (except taxis)	
7	craft enterprises road sector, engaged in works on repair and construction of roads	
8	Vehicles used in training of personnel for military forces of Uzbekistan on state programs	
κ	property received in leasing, the term of the leasing contract	
	<b>TOTAL</b>	

When calculating the tax on the property tax base is reduced by the value of the above property.

### **Property tax rates**

The property company is taxed at 3.5 percent. Rate is applied to the residual value of the property given its revaluation. Revaluations are performed in order to bring the value of fixed assets the organization into line with current prices. If as of the first day of the accounting year are revalued fixed assets revaluation made in the formation of the financial statements at the beginning of the year. When this data inconsistency at the end of the previous year and at the beginning of the reporting year vary as revaluation of fixed assets held as of the first day of the accounting year, and set out in the notes to the financial statements for the current period. The revaluation of fixed assets held annually (before February 1 of the current year) as of January 1, based on the level of prices in the period of the revaluation. After revaluation full replacement value of fixed assets is determined, i.e. the total price of costs that would have to carry out business in the case of replacing them for similar new facilities at market prices (tariffs), existing at the date of revaluation, including acquisition costs (construction) , transportation, installation of objects, and for imported objects - as customs fees, etc.

Full replacement value of fixed assets is determined at the discretion of the organization or by direct recalculation of individual objects documented market prices for new objects are estimated similarly prevailing on January 1 at the time of revaluation (direct method of revaluation) or - by indexing initial (replacement) amount of individual objects using indices of changes in value of fixed assets, differentiated by type of fixed assets and depending on the period of acquisition (index method). In this case of homogeneous objects of fixed assets (by brand, type, etc.) can be used only one method.

Set property tax rate is reduced:

30 percent in the share of exports of goods (works, services) produced at a rate of 15 to 30 percent of total sales;

50 percent - while the share of exports of goods (works, services) produced in excess of 30 percent for all kinds of enterprises producing export products and implement its own or through a specialized foreign trade associations and firm.

This privilege does not apply to commercial and intermediary businesses, as well as manufacturing companies that export for hard currency commodities - cotton, cotton yarn, lint, oil, petroleum products, gas condensate, natural gas, electricity, precious, ferrous and non-ferrous metals. Exporting enterprises in the export share of 15 to 50 percent in the form of property tax calculation in the "tax rate" indicates the rate of a fraction. When the share of exports from 15 to 30 per cent indicated a 3.5% / 2.45%, while the share of exports over 30 percent of -3.5% / 1.75%.

**PAYMENT**  
**of rating for property for \_\_\_\_\_ 200\_\_.**

№	Data	By payer's data
1	The average annual value of fixed assets and intangible assets during the reporting period, UZS	
2	Tax rate, %	
3	Tax amount for fixed assets and intangible assets, the sum (p 1 x p 2): 100	
4	The average annual cost is not specified in the standard terms of equipment, UZS	
5	Tax rate. % *)	7%

6	For an undetermined amount of tax in normative terms equipment (p.4 p.5 x 100), the sum	
7	The average annual volume of unfinished object in a timely construction UZS	
8	Tax rate. % *)	3,5%
9	Amount of tax for the unfinished object in a timely construction (page 7 page 8 x 100). sum	
10	Total tax (line 3 + p + 6 page 9), the sum	
11	Tax amount calculated for the previous period, the sum	
12	Are payable, amounts	
13	Subject to a reduction, the amounts	

**\*) Rate applies excluding benefits provided for exporters.**

It should be noted that all calculations on property tax on an accrual basis and exporters benefit is provided only if the enterprise as a whole for the year stands conditions necessary to comply with the share of exports. If at the end of any quarter, the company falls under the privilege, and for the whole year - no, it means that the company can not avail of this benefit for the entire year.

**Certificate on exported products (works, services)  
for \_\_\_\_\_, 200\_.**

Data	N line	Income (profit)	Expenses (loss)
Net sales (p. 050 Form N 2 "Statement of Financial Performance")	10		
including Export of goods (works, services)	20		
The share of exported net sales (page 020/str. 010 x 100%)	30		

For an undetermined time in the regulatory and unused equipment businesses pay property tax at twice the rate. According to the approved rate and duration of reserve in the construction of enterprises, buildings and structures for each object must set timetable for the delivery and installation of technological or other equipment. Delivery schedule and installation of domestic and imported equipment into account the following deadlines:

-Major technological and energy equipment - before the planned deadline for submission to the installation of specifically named persons and their delivery schedules;

Process equipment, production lines, plants and other offsite equipment - set-up deadline equipment installation, but not more than six months;

-Complete sets of imported equipment - before the planned deadline for submission to the assembly, but not more than one year; if for technical reasons installation of equipment can not be made in installments, the deadline in their assembly shall be calculated from the moment of receipt of the complete set of equipment

-Fragmented imported equipment and cable products, wire and cable, - before the planned deadline for submission to the assembly, but not more than six months.

In the absence of rules and schedules assembly and installation of equipment, the following terms:

-On domestic and imported equipment, in production facilities - a month after the execution of a one-year qualifying period;

- For non-production facilities - after the expiration of six months from the date of acquisition;

-Do household facilities and equipment that does not require installation - from the date of purchase.

For violation of these terms of delivery and installation, as well as non-use of equipment enterprises pay tax at the higher stakes, except for property that is not subject to taxation.

Fixed-term construction is the standard period of construction of the object defined by the project organization as part of the construction project (PIC) in accordance with SNIP 1.04.03-85 "Norms duration of construction enterprises, buildings and structures." Planning organizations are required to design and estimate documentation standards specify the duration of the construction period, with the release of the preparatory work. In the absence of design and estimate documentation standards duration of construction customer is obliged to obtain the opinion of the project organization of the norm for the duration of the construction of a particular item.

### **Task**

On 1 January 2014 the enterprise, property tax payer and intangible assets were not fixed. January 13 was purchased computer cost 580 thousand sum, and March 25 - the printer for 220 thousand sum. Should calculate the property tax for the 1st quarter of 2004.

**Decision.**

On January 1, the original (it is the residual) value of OS is 580 thousand sum. Computer taken as full as it was put into effect in the first half of January.

Acquired on March 25 printer according to the instructions, is taken into account only from April 1 because it was put into effect in the second half of March.

Depreciation should be awarded, beginning with the month following therefore, by the computer - from February to a printer - since April.

Depreciation rate, in accordance with Article 23 NK5 - 20%.

Thus, 01.01, and 01.02. accumulated depreciation absent.

1.03. (Ie, wear February) -  $20\% \times 580 / 12 \text{ months} = 9.67 \text{ UZS}$ .

1.04. (Wear for February and March) -  $9.67 \times 2 = 19.34 \text{ UZS}$ .

	01.01.	01.02.	01.03.	01.04.
initial cost	580	580	580	800
wear and tear	-	-	9,67	19,34
residual value	580	580	570,33	780,66

$$\begin{array}{lcl} \text{Average} & 0/2 + 580 + 570.33 + & \\ \text{residual} = & 780.66 / 2 & = 1830.66 = 152.56 \\ \text{cost} & 12 \text{ month} & 12 \quad \text{UZS} \end{array}$$

The property tax is  $3.5\% \times 5.33 \text{ UZS}$

### **Personal property tax**

Taxation of individuals in accordance with the Tax Code of the Republic of Uzbekistan and the Regulations "On the calculation and payment of tax to the budget on personal property" (reg. MU number 1103 from 05.03.2002).

Payers of property tax are individuals who own taxable property.

The objects of taxation are:

cost of houses, apartments, cottages and garden houses, garages and other buildings, premises and facilities.

Resolution of the Republic of Uzbekistan № 490 of 31.12.2013 made the following changes from the previous version of Instructions: return of the property tax on individuals, payable on vehicles usual tax on the consumption of gasoline, diesel and natural gas for vehicles.

Individual property is taxed at the rates established by the Cabinet of Ministers, which is indexed annually in accordance with Resolution

of the Republic of Uzbekistan "On forecast of key macroeconomic indicators and parameters of the budget ...".

For 2016, the tax rate on personal property are given below:

object of taxation	measure	tax rate
1.Houses,apartments, cottages and garden houses, garages and other buildings, premises and structures of their value		1,5

Note

\*) In the absence of assessment bodies to assess personal property tax collection for the notional value of the property taken in Tashkent city and regional centers in the amount of 1800.0 thousand sum, and in other cities and in the countryside in the amount of 800.0 thousand sum with subsequent recalculation after revaluation.

Property Valuation For individuals, employees of BTI.

### **Tax exemptions**

Property tax is not levied on buildings, premises and facilities owned by:

- a) persons awarded the title of "Uzbekistan Kahramoni" Hero of the Soviet Union, awarded the Order of Glory of three degrees;
- b) participants and guerrilla war of 1941-1945, persons equated to them, persons who served in the composition of the bodies of internal affairs and national security staff employees of the military units, staffs and institutions that are part of the army, and the blockade of Leningrad former juvenile prisoners of concentration camps, military and the training and testing gathering conscripts who served as part of a limited contingent of troops temporarily stationed in the Republic of Afghanistan and other countries in which the operations were conducted;
- c) mothers-heroines, as well as women with ten or more children;
- g) citizens (including temporarily directed or sent) receiving benefits for participating liquidation of consequences of the Chernobl accident;
- d) pensioners and disabled groups 1 and 11;
- e) conscripts and their families - for the period of service;
- g) the parents and not remarried wives (husbands) of servicemen who died as a result of injury, concussion or injury received by them in the



performance of military duties, or because of a disease associated with a stay at the front;

h) of disabled servicemen of the Defense Ministry of Internal Affairs, Emergency Situations, the National Security Service, individual officers and enlisted personnel of the Interior of the Republic of Uzbekistan, have become disabled due to injury, concussion they received in the performance of their duties.

At the same benefits apply to only one property on the owner's choice when submitting the necessary documents entitling them to receive benefits.

Exemptions are granted only in cases where the property is owned by beneficiary.

In the event of the year for payers when the privilege of property tax, they are exempt from these payments beginning with the month in which the right of privilege.

With the loss of the year when the privilege of property taxation is made, starting with the month following the loss of this right.

### **The calculation and payment of tax**

Calculation of the tax on personal property is made by the tax authorities. Annually, not later than 1 May payers are handed notices of property tax by the tax authorities. State tax authorities carried out keeping the property tax payers of individuals as January of each year in the context of cities and regions according to the owners of the buildings available in the bodies and organs of State Insurance Public Utilities (Bureau of Technical Inventory). Payment of tax by individuals by equal shares in two terms - not later than June 15 and December 15. In the case of payment by the taxpayer unnecessary amounts of these amounts shall be refunded to the taxpayer within thirty days at his written request, or counted against future payments. To buildings, facilities and structures on the property tax is calculated on the basis of data about their inventory value as of January 1 of each year, provided by the bodies of public service, and in their absence - assessment used to calculate payments on compulsory insurance of these objects. On buildings, premises and facilities that are jointly owned by several owners, property tax is paid by each of the owners in proportion to their share in these buildings, premises and facilities. According to the new buildings, premises and facilities tax is paid from the beginning of the year following their construction or acquisition. For the property that

passed by inheritance tax is levied on the heirs of the opening of the inheritance.

In the case of destruction, the complete destruction of the property taxes on the property ceases begins with the month in which they were destroyed or completely destroyed. When going to the property disposition from one owner to another during the calendar year the tax is paid to the original owner on January 1 this year in advance of the month in which he lost his title to the property and the new owner from the month in which the latter emerged ownership. If you have any eligibility during the calendar year property tax allocation is made from the month in which there was a right. If an individual uses his property for the purpose of business (for income), he shall pay the property tax rate for individuals. As for the payment of land tax, in this case, the provision of individual land for entrepreneurial activities, land tax must be paid at the rate established for the enterprise.

## **Lecture 8. LAND TAX. SUBSURFACE USE TAX.**

### **Plan**

1. Land Fund of the Republic of Uzbekistan in accordance with the main purpose of land.
2. Category Land Fund.
3. Procedure for granting (implementation) of land in possession, use, lease and property established by the legislation.
4. Land on a contractual basis to provide rent.
5. Charges for use of land.
6. Taxation of legal entities.
7. For non-irrigated land, hayfields and pastures - the lowest rate.
8. The calculation and payment of the land tax entities.

Land Fund of the Republic of Uzbekistan in accordance with the main purpose of land is divided into the following categories:

1. Agricultural land - land allocated for agriculture or designated for such purposes. Agricultural land divided into irrigated and non-irrigated (rainfed) land, arable land, land occupied by grasslands, pastures, perennial fruit plantations and vineyards;
2. Land settlements (cities, towns and villages) - land, Rodia within the boundaries of cities and towns, and villages;
3. Land for industry, transport, communication, defense and other purposes - land allocated for use by legal entities for such purposes;

4. The earth environmental, health, recreational purposes - land occupied by protected areas that have natural therapeutic factors, as well as land used for public recreation and tourism;
5. Lands of historical and cultural significance - land occupied by historical and cultural monuments;
6. Forest land - land covered by forest and non-forest, but provided for the needs of forestry;
7. Water fund land - land occupied by water bodies, water facilities and ROW along the banks of water bodies;
8. Reserve lands.

Assignment of land to the categories of the land fund is made in accordance with the basic purpose of land. The main purpose of the land - established by the legislation procedure and conditions for the use of land for specific purposes, reflected in land-cadastral documentation. Transfer of land from one category to another land fund performed in cases of changing the main purpose of land. Assignment of land to the categories of the land fund and transfer them from one category to another are made bodies with the authority to grant land (Cabinet of Ministers, the public authorities of regions, cities, districts). Category Land Fund specified in the decisions on allocation of land taken by authorities having the right to grant land in certificates, contracts and other documents certifying the right to land, the documents state cadastre. Violation of the rules of transfer of land from one category to another is the basis for the recognition of unlawful transfer of facts and invalid land transactions committed on their basis, as well as the refusal of state registration of rights to land. Land is the land fund, which has a fixed boundary, area, location, legal status and other characteristics reflected in the State Land Cadastre. Legal persons may have land on the right of permanent possession, permanent use, term (temporary) use, lease and property. Individuals can have land on the right of lifetime inheritable possession, permanent use, term (temporary) use, lease and property. According to the Land Code of the Republic of Uzbekistan:

Land is state property - subject to the management, protected by the state and is not subject to purchase and sale, exchange, donation, pledge except in cases stipulated by legislative acts of the Republic of Uzbekistan. Emergence of property rights of businesses and individuals on land possible in the following cases:

□ ownership of legal entities and individuals on land occurs when the privatization of trade and services, along with the land on which they are accommodated.

□ ownership of the land of diplomatic missions and similar international organizations accredited in Uzbekistan, there is the implementation of their buildings or parts of buildings used for space missions, along with the land on which they are located, as well as land for construction Building these offices.

□ foreign ownership of businesses and individuals on land - employees of the diplomatic corps, representatives of the press, accredited in the Republic of Uzbekistan, permanent missions of firms, companies and international organizations, persons employed on a permanent basis at the enterprises with foreign investments, as well as those residing in the country and holding a residence permit, it arises in the implementation of premises together with the land where they are located.

The right of permanent and fixed-term (temporary) possession and use of land granted to enterprises, institutions and organizations for agriculture and forestry, and in cases stipulated by the legislation - and for other purposes.

In permanent or fixed-term (temporary) use of land are available:

- citizens of the Republic of Uzbekistan;
- industrial, transport and other non-agricultural enterprises, institutions and organizations;
- enterprises with foreign investment, international associations and organizations;
- foreign legal entities and individuals.

Procedure for granting (implementation) of land in possession, use, lease and property established by the legislation.

Urgent land use can be:

- Short-term - up to three years.
- Long-term - three to ten years.

Plots for transhumance may be granted to agricultural enterprises, institutions and organizations for up to twenty five years. When the right of property, the right of economic management or operational management rights venture, building, structure or other real property, together with the objects and passes ownership and permanent use of land occupied by the specified objects and necessary for their use.

The right to legal entities and individuals on land occurs after demarcation on the ground, plans and descriptions of the land and the

state registration of rights to land. State registration of legal entities and individuals on land provided by the relevant competent authority within ten days of receipt of the application with the required documents on the rights to land (Article 35 of the Land Code of the Republic of Uzbekistan).

Building lease is urgent, onerous possession and use of the land under the lease agreement.

Land on a contractual basis to provide rent:

- citizens and legal entities of the Republic of Uzbekistan - khokims and urban areas;
- enterprises with foreign investment, international associations and organizations, foreign legal entities and individuals - the Cabinet of Ministers.

Agricultural enterprises, institutions and organizations may establish the fate of the land in order for tenants farm lease only for agricultural production. Provide their land leased to other legal entities, they are not eligible. Letting the leased land or part thereof is forbidden to sublet, except as required by law.

Lease relationships are most developed in Tashkent. Legal persons receiving land must enter into a lease agreement with the Department of Land Management on estates and real estate cadastre government of Tashkent. In these cases, payment of rent for the land is not regulated by the Tax and Civil Code of the Republic of Uzbekistan. Legal entities, regardless of the adopted system of taxation, processing lease land, undertake to make the rent for leased land.

### **Charges for use of land**

Land use is paid.

There are two types of payment for land;

1. For the right of possession and use, as well as ownership of the land, legal entities and individuals produce for the land in the form of annual land tax, the dimensions of which are determined depending on the quality, location and water supply land.
2. When transferring land lease payments for land will be charged in the form of rent, the amount of which is set by agreement of the parties, but not less than one and not more than three land tax rates, in the case of use of land for agricultural purposes - in the amount of one land tax rates.

For lands granted in the prescribed manner, the tax is paid regardless of whether the use of land. Land tax paid to the local budget

of the district or city, on whose territory the land, regardless of the location of the taxpayer. The same procedure shall be paid the tax, if the land is on site and district and city.

Example. Administrative border Tashkent runs through the middle land enterprise and one part of his land was in the territory of Uchtepa district of Tashkent, and the other part - in the Zangiata district of Tashkent region. Company for a portion of land, located on the territory of the city, makes payment of land tax rates for the city, takes account of the State Tax Inspectorate-Uchtepa District and pay the tax to the city budget. For part of the land, located on the territory of Zangiata district calculates the rates for rural Tashkent region, gives the State Tax Inspectorate payment area and pay the tax to the budget of the region.

The calculation and payment of land tax is applied in accordance with the Instruction "On the procedure of calculation and payment of the land tax" (registration number 1118 from MJ 27.03.2002).

### **Land tax payers**

Land taxpayers are legal entities and individuals, owning, possession or use of land.

The following organizations do not pay land tax:  
mikrofirms and small enterprises payers of single tax payment;  
and the following entities - by main activity:

- Enterprise-trade and catering;
- Agricultural producers, payers of single tax;
- Asking for entrepreneurial activities, which established the payment of the flat tax;
- Asking for the organization of lotteries, sweepstakes and other risk-based games that pay the single tax on gross receipts.

### **Taxation of legal entities**

The object of taxation for businesses are land: acquired property in the manner prescribed by law; granted in ownership for agriculture or forestry; provided for use for the construction of enterprises, buildings or other non-agricultural purposes; right of possession and use of which was transferred together with the transfer of ownership of the enterprise, building or structure. In the event (termination) within one year from natural and legal persons of title to land, land tenure, as well as in the event of an increase (decrease) of land area used or termination (of) the rights to benefits under the land tax, they must submit the State Tax Inspectorate land tax payments no later than one month from the date of

withdrawal (redemption) of land or termination (of) the rights to benefits.

### **Land tax rates**

Land tax rates established by the Cabinet of Ministers of the Republic of Uzbekistan. Depending on the main purpose of land and payers, there are several options for the land tax rates: for public irrigated farmland; for rainfed arable land, fallow and perennial plants; for non-irrigated hay meadows and pastures in other lands not used in agricultural and forestry production; for land use in Tashkent; for land use in cities and towns; for the use of land located in rural areas (with enterprises, institutions and organizations); for the use of land located in rural areas (citizens). Land tax rates are set separately for businesses and citizens. The highest rates of land taxes provided for businesses for land use in cities. For example, in Tashkent, their size varies between I 686 013-18 410 535 UZS sum for 1ha, depending on the zone in Samarkand – I 370 620-1 690 941 UZS sum for 1ha.

In comparison with citizens living in urban areas, for providing for individual housing construction land tax rates are several orders of magnitude below: Tashkent - from 16.6 to 72.2 sum per 1 square. m, in Samarkand - from 12.5 to 15.2 sum per 1 square. m, depending on the zone. Land tax rates are set by zones. Thus, the territory of Tashkent is divided into 14 zones, and large areas of big cities - 4-zone, small towns and towns 3 - 2 zones.

Land tax rates for public irrigated farmland is much lower and depend on the quality of land, which is expressed on a scale of soil quality. For example, in Tashkent region the highest land tax rates observed in Zangiota near sum of 1882.5 (0-10 points) to 32950.7 sum per 1 ha (91-100 points); in the amount of the rates depending on the quality of land differ by more than 17 times,

In case of deterioration of agricultural land (reducing forest site), advancing through the fault of the land owner, the landowner or land tax, land tax is charged at the rates set to land degradation. For agricultural land located within the administrative boundaries of cities and urban settlements, land tax is paid in the amount of twice the rates established for agricultural land.

For example, if agricultural land, located in Tashkent, and the quality of their estimated 41-50 points, you should use the rate for the corresponding intensities of agricultural land in the nearest locality ~

7425.2 sum per 1 ha, increasing its half. Therefore, you should take the bet - 24850.4 sum per 1 ha.

For non-irrigated land, hayfields and pastures - the lowest rate.

Below are the rates of land tax levied on enterprises, institutions and organizations for the use of land located in rural areas (2005).

Depending on the location of the land in relation to the administrative and industrial center for land tax rates established for rural areas (except farms), the following factors:

Tashkent-around within 20 km - 1.30;

-Around the capital of the Republic of Karakalpakstan and regional centers within 15 km - 1.20;

-Around regional centers within 10 kilometers -1.15;

-Around other cities within 5 kilometers - 1.10.

Distance to land defined by the administrative boundaries of cities and regional centers by road. In cases where land located near the two towns, taken coefficient corresponding to a higher functional purpose.

In accordance with the Cabinet of Ministers "On measures to stimulate consumer goods market saturation and improve mutual relations between producers and trade companies" for manufacturing companies, specializing in the production of consumer goods, land tax is paid at the statutory rates, but no more than set for the middle zone of the cities and towns. To establish uniform rates within a rural settlement or agricultural enterprise their lands belong entirely to a suburban area or entirely excluded from this zone depending on what part of the land included in this zone. When calculating land tax levied on small farmers to the land tax rates depending on the quality of land, there are the following factors:

□ in soil fertility to 40 points - 0.75;

□ in soil fertility from 41 to 70 points - 1.0;

□ in soil fertility over 70 points - 1.25.

This order, according to the new regulation applies to all entities, including exempt from land tax and do not pay tax in connection with the transition to the simplified taxation system.

### **The calculation and payment of the land tax by legal entities**

Land tax is calculated independently entities as of 1 January of each year.

Payment of land tax is submitted before February 1 of this year to the state tax office location of the land in two separate forms:

- for non-agricultural land



- for agricultural land.

Legal persons receiving benefits from the use of condition of release of funds for specific purposes, are also payment of land tax in the form and deadlines for taxpayers. Dekhkans are legal entities of the total amount of land tax charged 95% of pay to the budget, and 5% - Support Fund and farms. In calculating the amount to be wear in the Fund is presented separately.

Calculation of the tax for land use is associated with excavation sing resources, including land occupied or intended for overburden dumps, empty and off-balance sheet rock will be subject to their location on the rates for mines and quarries.

Land use is associated with the processing of minerals or their use in productive activities, including land occupied tailings and settlers, as well as administrative, auxiliary buildings and facilities, the tax is calculated at the rates established for enterprises, institutions and organizations. Calculation of the land tax is based on the actual footprint of the land plot.

For the land allotted during the year, the tax is paid, starting next after land allotment month. In case of withdrawal (reduction), foreclosures, land sales tax collection stops (reduced) from the month in which the withdrawal is made (Decrease), purchasing, selling land.

In providing for rent individual buildings or premises other businesses and individuals pay the land tax entity on its balance sheet which this building is.

If a separate building is on the balance of several legal entities, the land tax paid separately by each entity in proportion occupied by industrial premises. Legal persons occupying part of blocks of flats, land tax is calculated on the basis of the dwelling house occupied by total area and shares used this entity industrial premises

Legal persons (other than agricultural enterprises) tax is payable quarterly, equal shares and up to 15 of the second month of the quarter. If the entity has received Land after the payment deadline for the reporting quarter, the deadline for payment of the tax for the period is the deadline for payment of tax for the next quarter.

Agricultural enterprises pay land tax once a year to 15 December of the year.

### **Benefits for legal entities**

Lands that are not subject to taxation are:

A) Shared Earth cities, towns and rural settlements (squares, streets, driveways, roads, irrigation network, embankments, etc., the land used to meet the cultural and social needs and recreation, cemeteries, places of disposal and recycling waste).

B) Earth shared collective gardening, horticulture and viticulture, collective garages.

However, land granted to citizens for collective gardening, are taxable.

C) Earth environmental protection (national parks, national dendrologic parks, botanical gardens, wildlife sanctuaries, except for hunting, nature monuments, granted to enterprises, institutions and organizations for special purposes) engaged protective forest plantations.

D) Earth's historical and cultural significance (land of historical and cultural reserves, memorial parks, burial, archaeological sites, historical and cultural monuments, provided relevant institutions and organizations in constant use).

E) Earth's water resources (land occupied by rivers, lakes, reservoirs, canals, seas, glaciers, wetlands, hydraulic and other water facilities, as well as the ROW along waterways provided to enterprises, institutions and organizations for the needs of water management ).

F) Land occupied by power lines, substations, and statewide communication lines and structures on them.

G) Land occupied by motor roads and structures on them.

H) Land occupied by the railways and public network facilities to them.

I) Land occupied ways of urban electric public transport and metro lines (including land occupied metro stations) and facilities to them.

This exemption applies to the lands occupied by tramway and trolleybus lines underground, tram and trolleybus stops, including control centers, metro stations and other facilities in the ways of urban electric transport.

J) Land occupied by sports facilities, stadiums, sports grounds, swimming pools, sports facilities engineering and other sports and recreational complexes, places of recreation and health of mothers and children, sanatoriums and rest homes, education and training facilities.

K) Land occupied by water mains, sewer or backbone structures on them, diversions and treatment facilities, as well as other objects of water supply and sanitation.

L) Land occupied by main oil and gas pipelines and facilities to them.

M) Land occupied by the main thermal routes and facilities to them. N)

Land occupied runways, including taxiways and aircraft parking, radio navigation and electric lighting equipment of civil airports.

O) land reserved for construction of objects included in the investment program of the Republic of Uzbekistan for the normative construction period, as well as under the objects conserved decisions of the Cabinet of Ministers. According to this subparagraph land designated for construction of facilities included in the investment program shall not be taxable. If, according to the Investment program provides reconstruction or modernization of the company, its individual shops, in these cases, the privilege does not apply;

P) Land occupied by hydrometeorological and hydrogeological stations and posts.

Q) Agricultural land and forest research organizations, experienced, experimental, educational and experimental farms research organizations and educational institutions agriculture and forestry used directly for scientific and educational purposes.

R) Newly reclaimed land and existing irrigated land in the process of reclamation, for the term specified project, but not more than five years from the commencement of works. S) Reserve land (land not granted possession, use and lease, and not implemented in the property to businesses and individuals. They also include land ownership and use, lease and ownership of which terminated in accordance with the law).

T) Recreational lands (lands granted to the relevant agencies for mass tourism and recreation population: parks, boulevards, beaches, etc.).

U) Earth recreational purposes

V) Earth provided within prescribed limits for individual housing construction and ancillary services (Dekhkan Farm) - for a period of two years from the date of land.

W) Earth agricultural and forestry enterprises and organizations engaged in forest and trees, objects, education, culture and health, as well as sports facilities.

X) New planting orchards and vineyards farms before their entry into the fruiting period regardless of whether the row spacing for planting crops.

Y) Land occupied by objects of civil defense and mobilization purposes, on the balance sheet of the taxpayer and not used in business.

In land use off-label benefits do not apply.

Tax benefits granted to taxpayers by legislative acts of the Republic of Uzbekistan, adopted prior to enactment of the Tax Code of the Republic of Uzbekistan are retained until the expiration of the term for which they were granted.

Plots located in the buffer zone of the main canals and reservoirs, reservoirs, power and national lines, pipelines and water intake Whirling legal and physical entities is used in compliance with the relevant rules of protection of utilities, and the land tax is paid in the prescribed manner.

From land tax exempt entities:

a) non-profit, except for using the land for business activities.

If the land-for-profit organizations are directly used for business (renting, agricultural production and) then over the land tax is paid in the prescribed manner.

Under the non-profit organizations for tax purposes means:

Enterprises, institutions and organizations funded solely t the expense of the state budget, receiving subsidies from the budget to cover expenses within the approved estimates;

Charitable associations, associations and foundations, international organizations, religious groups and other organizations:

1. Started for the socio-charitable or other purposes that do not pursue income from business activities stipulated in the founding documents;

2. Investing and distributing funds and other means not for the personal benefit of employees, founders or members of the organization (other than remuneration for work in the manner prescribed by law).

b) cultural, educational, health, labor and social protection of the population, regardless of affiliation, for the land set aside for the implementation of tasks assigned to them.

c) dehkan farms for a period of two years from the date of state registration.

Exemption repealed in accordance with the law number 714 - II by December 3, 2004

d) owned by public associations of the disabled, the Fund "Nuroniy" and Association "Chernobl Uzbekistan", the total number of running at least fifty percent disabled, except for legal entities engaged in trading, brokering, supply and procurement activities.

### **Land tax from individuals**

Individuals can have land on the right of lifetime inheritable possession, permanent use, term (temporary) use, lease and property.

Thus the right of lifetime inheritable possession of land granted to citizens of the Republic of Uzbekistan in the following cases:

□ for dehkan farming;

- ☐ for individual housing construction and maintenance of residential houses;
- ☐ for collective horticulture and viticulture.
- ☐ in other cases provided by law.

Right of lifetime inheritable possession land citizens certify State act on the right of lifetime inheritable possession of the land. The objects of taxation for individuals are the plots:

- 1) provided in lifetime inheritable possession for dekhkan farming as in a building, and on public lands;
- 2) provided in lifetime inheritable possession of the day for individual housing construction;
- 3) provided for collective viticulture and horticulture;
- 4) provided in accordance with the law as official land allotment;
- 5) The right to the possession of which went together with a dwelling house, garden house by inheritance, gift or as a result of the acquisition;
- 6) acquired the property in the manner prescribed by law;
- 7) provided for permanent use or lease for business activities.

Calculation of the land tax for individuals is made by state tax authorities, in connection with the citizens that are not responsible for incorrectly calculated amount of tax.

Dehkan farms (unincorporated) calculated from the total amount of land tax paid by 95% of the budget and 5% of the Fund support and farms. Due to state tax authorities in the payment notices, prescription Dekhan farms, indicate separately the amount of land tax payable to the budget, and the amount of land tax.

Plots of land to individuals for private farming (Dekhkan Farm) in rural areas, may consist of homestead land and additionally allocated plots on public lands. In this case, the area of land adjoining the land and accepted the annual inventory data refinement in kind occurred imputations. Additional area allocated plots on public lands accounted for according to the farms that are annually updated.

List of individuals and areas of land granted to them for collective horticulture and viticulture, as well as areas occupied by individual garages, taken according to the boards of these organizations.

Service area of allotments made according to enterprises, institutions and organizations to provide their employees with the land of their specification on the ground.

### **Land tax rates for individuals**

Land tax rates for individuals are also determined by the Cabinet of Ministers and depend on the purpose and location of the land plot. Land tax rates in urban areas are set on the same principle as for legal entities - in the zones. Thus, the territory of Tashkent is divided into 14 zones, and large areas of big cities - 4-zone, small towns - towns and 3 - 2 zone.

With people living in urban areas, for providing for individual housing construction land the land tax rates differ depending on the status and location of the city, as well as the quality of the land: so. Tashkent - from 16.6 to 72.2 per 1 square sum. m, in Uchkuduk - from 5.7 to 8.5 per 1 square sum. m, depending on the zone. For the use of land located in the countryside, the highest rate established for granted for dehqan farming lands.

By land tax rates levied on citizens for the use of land located in the countryside, depending on soil fertility, the following factors:

- Up to 40 balls - 0.75;
- From 41 to 70 balls - 1.0;
- More than 70 balls - 1.25.

For lands occupied by orchards and vineyards, transferred to individuals in private ownership with the right of redemption of fixed assets, calculated at the rates established for agricultural land.

If the land granted to individuals for business, the tax is charged at rates approved for enterprises, institutions and organizations. For land used by individuals for shops, canteens, and other facilities. With individuals, provided they do not use the land for two years, land tax is charged on the amount of three times.

For land used by individuals (including exempt from land tax) more public authorities designated areas, land tax is payable at a rate of 1.5. For the land occupied by the collective to the individual garages with physical charged at rates approved land for individual housing construction.

"Regulations on the use of non-residential premises in apartment buildings" (Resolution of the Cabinet of Uzbekistan №22 of 24.01.2000) provided the following list of activities permitted to be placed in non-residential areas of apartment houses:

1. Trade in food and non-food items (shops, kiosks, stalls, etc.).
2. Catering (restaurants, cafes, cafeterias, bars, ice cream and soft drinks and snacks, etc.).

3. Consumer services (hairdressers, shoe repair, hours, workshops, studios, etc.).
4. Providing banking services (bank branches and foreign exchange).
5. Communications services (Post Offices).
6. Activities:
  - housing and repair and maintenance;
  - self-government bodies;
  - cultural institutions, public education, social security, health;
  - Physical Culture and Sports;
  - points of militia; prosecutors, and the court registrar's office;
  - legal profession, notaries;
  - offices and offices of entrepreneurs;
  - insurance organizations;
  - creative workshops of artists and sculptors of various organizations
  - governing bodies related to the administrative and management functions.

**Note.**

Can not be accommodated in non-residential premises, translated in the prescribed manner of residential premises (former apartment), and converted the basement and semi-basement rooms facilities, operation of which may lead to physical and chemical contamination of the territory and air living environment, to a breach of normal living conditions living in house parties, including placing the following types of companies and organizations:

- a) catering to the number of seats not covered by the design documentation when building a house, and operated later than 23 pm (restaurants, cafes, nightclubs, bars, discos);
- b) stores chemical products, vegetable and fish products, and sells products containing explosive substances and materials;
- c) Dry applying flammable substances in their production;
- g) chemically applying flammable substances in their production;
- d) baths, saunas;
- e) PBX clock operated public telephones and telegraphs DLD;
- f) public restrooms;
- h) the establishment of the ritual service;
- i) industrial production.

For land ownership which moved together with the transition inherited an apartment house, non-residential buildings and structures,

garden shed, land tax is levied on the heirs subject to tax liabilities of the testator.

From land tax exempt individuals:

- a) The shepherds, herdsmen, machine operators, veterinarians and technicians, other technicians and workers transhumance.
- b) Persons who are awarded the title of "Uzbekistan Kahramoni" Hero of the Soviet Union, Hero of Labor awarded the Order of Glory of three degrees, persons with disabilities and members of the war of 1941-1945. These exemptions are granted on the basis of certified conferring the title of "Uzbekistan Kahramoni, books and the Soviet Union Hero of Socialist Labor, the Order book or reference department of defense, war participant certificate, certificate of Eligibility.
- c) Military and designed the training and test fees for military service, serving as a part of a limited contingent of troops temporarily stationed in the Republic of Afghanistan and other countries in which the operations were conducted. These exemptions are granted on the basis of a certificate of the right to benefits.
- g) Families military men called up for compulsory military service - the service life.

For citizens called to military service, the date of their appeal is taken according to district and city departments khokimiyats defense affairs. The date of termination of military service is taken the day of adoption registration department of defense citizen returning from service. On soldiers performing alternative service benefits established by this subparagraph shall not apply;

- d) Disabled groups I and II. These exemptions are granted on the basis of the pension certificate or a certificate of district (city) department of social security.
- e) a single pensioner. These exemptions are granted on the basis of the pension certificate or a certificate of district (city) department of social security.

Under a single pensioner for the purposes of taxation are pensioners living alone or jointly with minors or with a disabled child in a house, apartment or dorm.

- g) Large families lost their breadwinners. These exemptions are granted based on the certificate of the district (city) department of social security.



For tax purposes, large families, survivors are considered family, one of whom died or both parents in the family and there are 5 or more children under 16 years of age.

h) The former juvenile prisoners of concentration camps, those who participated in the aftermath of the Chernobyl accident. These exemptions are granted on the basis of a certificate of rights to benefits or help the district (city) department of social security.

i) Citizens settlers for land in their places of settlement for a period of five years from the date of their land.

j) Persons who have previously been assigned a personal pension.

The above benefits apply only to natural persons who are given land for individual housing construction and dehkan farming, within the limits provided by law. These standards are in cities and towns for one family are:

- for individual housing construction - 0.06 ha
- for private farming - 0.25 ha (irrigated.) And 0.50 ha (rainfed).

If individuals are exempt from land tax, own land area exceeding these standards, they must pay the tax with area exceeding standards in the amount of one bet.

The above exemptions do not apply to plots and service allotments. It should be noted that the right to a benefit, unlike property tax applies to the whole family, which live person, exemption from land tax.

Lands granted within the prescribed limits for individual housing construction and dehkan farming are exempt from taxation for a period of two years from the date of land.

### **Subsurface use tax**

For tax purposes as "bowels" consider the space, covering the upper part of the Earth's crust and is available for research and mining, as well as minerals - geological formations with economic and health value. Taxpayers for subsoil according to the Instruction "On the calculation and payment of tax to the budget for the subsoil use» (№ 1098 from 15.02.2002 ) are legal entities and individuals engaged in the territory of the Republic of Uzbekistan:

- mining,
- The use of technological, educational,
- Collect samples of semiprecious raw, paleontological remains and other geological collection materials.

Do not pay this tax:

- commercial and catering - in the part of the main activity;
- Agricultural producers paying the single land tax - in part of the main activity;
- legal entities engaged in entrepreneurial activities only, which established the payment of the flat tax;
- asking for the organization of lotteries, sweepstakes and other games of chance, which pay a flat tax on gross revenue - the core business.

Since 1 January 2004 micro and small enterprises engaged in the extraction of minerals, may move to single tax payment subject to the payment of tax for the use of subsoil in the prescribed manner. For the extraction of ore containing colored, rare, precious, base metals and other minerals, one now, pass it for further processing by another enterprise (except for export), the taxpayer is a company, processing mined ore and producing finished products, which set the interest tax.

For example, a copper mining company with copper mined ore is transferred concentrator, which then transmits the concentrated ore smelting factory. The factory produces finished products - refined copper, and which set the tax rate.

In this case, the taxpayer for the production of refined copper is complex, and not mine enterprise.

In the case of shipment of ore for processing outside the Republic of Uzbekistan or export tax payer is a business that mined ore.

Subjects to taxation for subsoil use are:

- The volume of mining (including passing minerals and valuable components) at a cost of actual sales of products resulting from their processing net of value added tax and excise tax.
- Passing minerals and valuable components are subject to taxation in the case of the composition of the ore mined, except for essential minerals, other raw materials allocated to which the approved rates.
- In cases where the extracted minerals or part of the raw material for the production or manufacture of other materials by the enterprise, the tax is paid on the basis of cost of production of raw materials for production of the approved rates.
- A volume extracted, but not implemented fully or partially in the reporting month minerals tax is paid on the basis of the weighted average cost of sales for the reporting or previous month in which the implementation has been made.

- The volume of man-made structures (waste extraction and processing of mineral raw materials) cost of the actual implementation of extracted minerals net of value added tax and excise tax.

The man-made structures include waste production and processing of mineral raw materials, including temporarily used for technological or other reasons.

- The carrying value of samples collected semiprecious raw, paleontological remains and other geological collection materials.

The collecting samples refer to the extraction of semiprecious raw, paleontological remains and other geological materials from the collection of natural outcrops, natural underground cavities (caves), waste pits, dumps and mining in floodplains without mining and other types of special operations, without compromising the integrity of the bowels.

Subsurface use tax is not charged since 2001 for the operation of underground facilities not related to mining, as well as for the construction of underground facilities not related to mining.

Tax rate for the use of natural resources are indexed by the Cabinet of Ministers.

From tax exempt for subsoil:

- Legal and natural persons carrying out geological studies.
- Legal entities and individuals conducting research on the geological, mineralogical and other protected areas.
- Landowners and land users in the established order production of commonly occurring minerals and in the limits of their land for their economic and social needs.

In accordance with this paragraph from the payment of the subsoil use tax exempt:

- The amount of common minerals mined in their territory and used by individuals and legal entities for construction and repair of buildings and structures not related to business activities. This individual must have a certificate from Khokimiyat that it shall maintain private construction. If these minerals are realized on the side, subsurface use tax must be paid.

List of common mineral resources of the Republic of Uzbekistan.

- ☐ Sand (except foundry, glass, porcelain and majolica, refractory and cement industries)
- ☐ Pebbles
- ☐ Gravel

- ☐ Clay (except refractory, refractory, molding, for whiteware and cement industries, bleaching, colorful, bentonite, acid and kaolin)
- ☐ loam (loam except for the cement industry)
- ☐ Crushed stone
- ☐ Sandstone (except bituminous, facing, and the silica glass industry)
- ☐ Quartzite (except the silica, flux, facing, for the production of ferrous silicon carbide crystalline silicon and ferro-alloys)
- ☐ Dolomite (except saw, facing, for the metallurgical, chemical, glass industry)
- ☐ Marl (except for bituminous and cement industries)
- ☐ Limestone (except bituminous, facing, saw, for cement, metallurgy, chemical, glass, paper and sugar industries, as well as for the production of alumina)
- ☐ Shell
- ☐ Slate (except fuel and roofing)
- ☐ mudstones and siltstones (except suitable for use in the cement industry)
- ☐ Igneous, igneous and metamorphic rocks (except cladding, decorative, and acid production of refractory materials, stone molding and mineral wool, as well as suitable for use in the cement industry).

### **The calculation and payment of tax for the use of subsoil**

Subsurface use tax entities is calculated based on the object of taxation and approved rates. Tax calculations are submitted to the State Tax Service in cumulative deadlines for payment of the tax. Subsurface use tax paid by legal entities:

- a) for the extraction of minerals and for the use of man-made structures - per month, up to the twentieth day of following the reporting month;
- b) in other cases - a quarterly basis, in terms of delivery of quarterly and annual reports.

Legal entities include subsurface use tax expenditures in the period.

Individuals engaged in the extraction of common minerals, are in state tax authorities and pay the tax payment for subsoil use once a year, no later than January 20 of next year, according to the notice of the State Tax Service.

Calculation of the subsoil use tax  
for \_\_\_\_\_ 200\_\_

Name	Production	Cost,	Tax	The amount	The	The
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and types of use of mineral resources	volume, t, cube m		sum	rate, % sum	of tax sum		amount of advance payments for the reporting quarter, the sum	payable, sum
	From the beginning of the year	For the reporting quarter			From the beginning of the year	For the reporting quarter		

### Tax rates for the subsurface use for 2015

Name of the objects of taxation	The tax rate in% of production volume
1	2
<b>1 . The tax rates for mining major and minor minerals</b>	
<b>Energy:</b>	
natural gas	30,0
Gas underground excavation	9,0
Unstable gas condensate	20,0
oil	20,0
coal	3,8
<b>Ferrous and rare metals:</b>	
refined copper	8,1
Molybdenum industrial product	4
Lead concentrate	4
zinc metal	4
tungsten concentrate	10,4
<b>Noble metals:</b>	
gold	5,0
silver	8,0
Precious and semi-precious stones in the raw	24,0
<b>Ferrous metals:</b>	
metall	3,0
<b>Mining and chemical raw materials:</b>	
Stone (table) salt	5,0

potassium salt	3,5
salt cake	3,5
Phosphorite (for graphite)	4,8
Carbonate raw materials (limestone, dolomite)	3,3
glauconite	3,3
mineral pigments	4,8
Mining raw materials:	
fluorspar concentrate	21,2
natural graphite	7,8
Kaolin gray, secondary raw	7,9
Quartz-feldspar	6,5
glass raw materials	1,8
bentonite clay	4,8
Talc and soapstone	3,9
Talkomagnezit	3,9
mineral paints	5,7
Vollostanit	3,9
asbestos	3,9
Basalt for the production of mineral wool Barite concentrate	2,3 2,0
Nonmetallic raw materials for metallurgy:	
Clay refractory, refractory, forming	3,3
limestone dolomite	3,9
Quartz and quartzite	6,5
Moulding of line	1,8
Nonmetallic building materials:	
cement raw materials	2,0
Blocks from a natural stone cladding	1,8
marble chips	3,8
Gypsum, Ganj	5,3
expanded clay materials	3,0
Brick-tile raw materials (loam, loess rocks, loess, sand as otoschatelya etc.)	3,1
Gypsum and anhydrite	3,8
Sawing stones, rubble and gravel	3,8
building sand	3,0
Sand and gravel, crushed gravel, pebbles, gravel	3,8
sandstone	1,6

shell	3,8
slates	3,8
Agloporit	2,5
Other common minerals (marl, argelity, amvrity etc)	1,6
2. The right to use man-made structures, obtained in the process of mining and mineral processing	30% of the rate for the extraction of essential minerals
3. Specimen collection semiprecious raw, paleontological remains and other geological collection materials	5% Of their value

## **Lecture 9. TAX FOR THE USE OF WATER RESOURCES**

Taxpayers for water resources.

1. Exemptions from payment of tax.
3. The calculation and payment of tax

Taxpayers for water resources are:

legal entities that use water in their activities;

- ☐ dehkan as to form, and without a legal entity;
- ☐ individuals engaged in entrepreneurial activity.

According to the Instruction "On the calculation and payment of tax to the budget for water resources» (№ 1097 from 15.02.2002) to payers of this tax does not include:

- micro and small enterprises payers of single tax payment;
- commercial and catering - in the part of the main activity;
- Agricultural producers paying the single land tax - in part of the main activity;
- legal entities engaged in entrepreneurial activities only, which established the payment of the flat tax;
- asking for the organization of lotteries, sweepstakes and other games of chance, which pay a flat tax on gross revenue - the core business,

In the case of taxpayers for which a special taxation, along with the main activity engaged in other activities, they need to keep separate records and pay tax on the use of water resources based on the volume of water used in this activity.

Tax on the use of water resources is paid directly to the place of water used by water users, regardless of the place of registration in the state tax service. This is due to the fact that many companies have land,

and, therefore, water and objects in different locations remote from the central office. Water use limits are set by regional water authorities, and therefore pay the tax should bind to the place of water consumption.

The tax rates for the use of water resources for 2016

	Rate per 1 cu. meter (tiyin)	
	surface sources	groundwater
1. Businesses of all sectors (except as specified in paragraphs 2,3,4)	71,2	90,4
2. Power plants	20,6	30,6
3. Utilities	39,1	50,5
4. Agricultural enterprises without switching to the single land tax dehqon farms and individuals who use the water in the course of business	71,0	89,0

Enterprises with farms, as well as educational and experimental farms research organizations and educational institutions that use the water for irrigation of crops and trees, tax is paid at the rate established for the agricultural enterprises.

### **Exemptions from payment of tax**

From tax for the use of water resources are released:

- Non-profit organizations. Except using water resources for entrepreneurial activity based on the amount of water used in this activity.
- Health care facilities that use mineral underground waters for medicinal purposes, except when they use mineral water to be sold in the trade network.
- Companies engaged in pharmaceutical activities and water-using manufacturing medicines.
- Companies in groundwater extracted in order to prevent harmful effects on the environment (except for the amount of water used for the production of technical needs). These include drainage water extracted in order to Wellpoint.
- Consumers who receive water from businesses that have made for its tax to the budget.



- Companies in groundwater extracted simultaneously with mining and mine water, except the amount of water used for the production of technical needs.
- Hydroelectric power for the use of water for the action units.
- Companies using recycled water for primary use of which payment has been made. For example, the use of water from the drainage system for irrigation.
- Companies producing agricultural products by main activity, the use of water for flushing saline lands. This exemption also applies to legal persons having subsistence agriculture.
- Companies in which the total number of persons with disabilities are not less than fifty percent owned by associations of persons with disabilities, the Fund "Nuroniy" Association "Chernobl Uzbekistan", except for trading, brokering, supply and procurement activities.

### **The calculation and payment of tax**

Tax calculations are made:

Entities (except agricultural enterprises who rent payment by 15 December of the year) on an accrual basis in the terms established for payment of the tax;

Individual entrepreneurs (except farmer facilities) are presented in their own state tax authorities within the period specified for this tax (up to 15th of the month following the reporting quarter).

Dekhkan Farmers state tax authorities handed notices to pay a tax for the use of water resources no later than May 1 of this year.

Legal persons receiving water from centralized water supply system, the refinement of the volume of water withdrawn in the reconciliation process with the companies of the "Suvokova" ("Water canal") reflect the detected difference in the volume of water in the calculation of the period, which made reconciliation.

Tax on the use of water resources is paid:

Entities (except farmer facilities) - the 15th of each month

Individuals engaged in entrepreneurial activities (except farmer facilities) - quarterly by the 15th of the month following the reporting quarter.

Legal entities in which the total amount of tax for the use of water resources for the quarter is less than fifty times the minimum wage, pay the tax on a quarterly basis within the period specified for delivery of quarterly financial reports.

Before January 15 of the current year tax payers (except farms) is sent to the state tax inspection at the place of water notice for payment of tax on a monthly or quarterly basis, based on the established limit or under the supply agreement.

Agricultural enterprises for water resources pay tax once a year until 15 December of the year.

Agricultural enterprises without switching to the payment of a single land tax, are excluded from the total volume of produced water volume of water used by other legal entities and individuals, based on the average for the whole economy (including irrigated areas other legal entities and individuals) water flow to irrigate 1 ha irrigated land.

When using water from a water supply system, where water from groundwater and surface water sources, the tax is calculated on the basis of the rates for the relevant sources and the volume ratio of water from surface and groundwater sources.

Data on such a ratio is obtained from the tax authorities supplying water companies and bring information of taxpayers. For example, in Tashkent, according to the trust "Water canal" the drinking water network supplied 72% of the surface and underground water 28%. Suppose the company received monthly 10 thousand cubic meters. m of water.

Then the volume of surface water will be  $10,000 \times 72 : 100 \sim 7200$  cubic meters. m, the volume of underground water -  $10000 - 7200 = 2800$  cubic meters. m

For 2005 for industrial companies approved the rates for surface water - 640 tiyin and underground water - 820 tiyin per 1 cu. m

The total tax amount  $(7200 \times 640) + (2800 \times 820) = 69\,040$  soums.

When renting companies or parts of buildings separate premises other companies and individuals tax for the use of water resources pay landlords, concluded on water supply system with enterprises "Suvokova" (" Water canal "), or other businesses.

Legal entities for rent (premises) and concluded a contract to supply themselves water tax for water resources pay yourself.

Legal persons performing maintenance and construction and other work in the operating companies do not pay tax on water used during the execution of these works.

For the amount of water used in the performance of construction and repair and other works, the company pays the tax for which this work is performed.

When the construction work on a new construction site for the amount of water used for production and technical needs during construction, builder pays the tax.

Enterprises serving hot water and steam, regardless of ownership and subordination shall pay the tax for the use of water resources for the entire volume of water withdrawn from surface and groundwater sources.

Tax charge for the use of water resources refers to the expenses of the period.

## GLOSSARY

**ACCA** - Association of Chartered Certified Accountants.  
[www.acca.org.za](http://www.acca.org.za)

**Accountant** - A person concerned with the maintenance and audit of business accounts and the preparation of consultant reports in tax and finance.

**Accounting** - The skill or practice of maintaining and auditing accounts and preparing reports on the assets, liabilities, income, expenses and financial position of a business.

**Accounting period** - The period of time reflected in financial statements. Usually, the accounting period is either the calendar year or a quarter. For example, companies listed on the Stock Exchange must report their financial state for the accounting period since their previous report. Most private companies you will deal with will have a 12-month accounting period, often from the 1st of March of one year to the end of February the following year.

**Accounting standard** - An authoritative statement issued by a governing accounting body that specifies how a particular type or category of financial transaction and other accounting matter should be reflected in financial statements. For example, in South Africa, all companies listed on the Johannesburg Stock Exchange are required comply with the International Financial Reporting Standards (IFRS). These accounting standards were issued by the International Accounting Standards Board (IASB). The Accounting Standards Board is the governing accounting body in South Africa issuing accounting standards for the government and the public sector.

**Accounts payable** - Also known as creditors: The amounts of money due or owed to a supplier by the company.

**Accounts receivable** - Also known as debtors: The amounts of money due or owed to a business or professional by customers or clients.

**Accounts Receivable Ledger** - (See Debtors Ledger)

**Accrual accounting** - Attempts to answer questions about performance by considering all the assets and liabilities of the business after the period of operation.

**Accumulate** - To gather or pile up, to increase by adding regularly, to mount up or increase. The word comes from the Latin word meaning 'to pile up'.

**Accumulative** - (See Cumulative in this glossary). Increasing by

successive addition; "the benefits are cumulative"; "the eventual accumulative effect of these substances"

**Acid test ratio** - Also known as the „quick ratio". A ratio of current assets less inventory divided by current liabilities.

**Acquisition** - 1. A purchase of an asset; 2. The purchase by a company of another company or a controlling portion of another company.

**Advertising** - Communication to the public of information about the services or skills provided by accountancy firms with a view to procuring professional business..

**Age Analysis** - A listing of debtors or creditors showing the number of days their payment is outstanding. This is usually broken down into those owing at less than: thirty days, sixty days, ninety days and 120 days.

**AIDS:** - Acquired Immune Deficiency Syndrome, a life threatening disease.

**Amortisation** - 1. To depreciate or write down the capital value of an intangible asset (such as the value of intellectual property) over a period of time in the financial statements of a company. 2. The repayment of a loan or other form of debt by regular payments.

**Amount Due** - Money that taxpayers must pay to the government when the total tax is greater than their total tax payments (throughout the year).

**Analysis** - A table or schedule of figures showing details of all the elements of the expenditure, income or any other accounting category. Example: Sales figures may be presented in an Analysis showing sales for different geographic areas and / or types or categories of product.

**Annual Financial Statements** - A financial document prepared by companies every year as required in terms of the Companies Act. It must contain an income statement, a balance sheet and a cash flow statement. It must also contain a record of any changes in Directors, shareholdings and equity. There is also an Auditors report and a Directors report. It is presented by the Board of Directors to the Annual General Meeting of the shareholders of the company.

**Annual report** - A document issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor's report

**Annual Turnover** - The amount of goods or services sold by a company in a financial year, normally twelve months. Approved limit -

An upper limit applied to a loan, credit card or an overdraft facility. This limit has been approved by the bank's Credit Department.

**Bill** - An itemized list or statement of fees or charges. To present a statement of costs or charges to. Also known as an invoice or 'to invoice' as a verb.

**Billing** - The total amount of business done in a specific period, as by an accounting firm, advertising agency or a law firm. Often used in the plural: billings. The total amount of fees charged for services. To bill is to charge or invoice or to bill the client.

**Big Four** - Traditionally, the four largest auditing firms in the world. They are: PricewaterhouseCoopers; Deloitte & Touche; Ernst & Young; and KPMG.

**Binding contract** – A legal agreement that can be enforced, if necessary, before a court of law. There are four components required for a binding legal agreement. These are: an offer of service or goods; an acceptance of the offer; a payment or agreement to a payment; and an intention to enter into a legal contract. Oral agreement, a digital signature or even confirmation emails provide sufficient evidence, in many cases, of an intention to enter into a contract.

**Black Economic Empowerment** - A program, supported by legislation, launched by the South African government to redress the inequalities of apartheid by giving previously disadvantaged groups (Black Africans, Coloureds, Indians and South African born Chinese) economic opportunities previously not available to them.

**Blue-chip** - Companies whose ordinary shares are considered reliable investments. The companies tend to be large, prosperous and stable with a solid record of capital growth and dividend payments in both good and bad times. They also have a strong long-term growth potential. The term comes from the use of casino chips in gambling - the highest value chip is blue.

**Body corporate** - A special form of legal entity created in terms of the Sectional Title Act, 1986. Body corporates are exempt from the Companies Act. A body corporate is automatically created when a unit is sold in a sectional title development. It is responsible for the common property of the sectional title development and for a range of issues contributing towards the good communal governance of a sectional title development for the benefit of all the owners.

**Bond** - 1. A binding agreement which commits one person to make a payment to another; 2. Bonds are debt and are issued for a period of

more than one year. The government, local governments, water districts, companies and many other types of institutions sell bonds. When an investor buys bonds, he or she is lending money. The seller of the bond agrees to repay the principal amount of the loan at a specified time. Interest-bearing bonds pay interest periodically; 3. An interest-paying debt instrument with a redemption date of one year or more after its issuance. These are issued by a borrower, such as a government or a large corporation, promising the investor interest payments and a return of the capital amount borrowed at the end of the bond period; 4. A term used in common speech to describe a mortgage loan in South Africa; 5. A financial guarantee normally issued by a bank on behalf of a construction contractor which can be claimed against by the client in the event of the contractor failing to perform in clearly specified circumstances. The most common forms of financial guarantees are bid bonds (see glossary) and performance bonds (see glossary); 6. A legal agreement registered with the Deeds Office which gives legal claim to a lender over a debtor's moveable or immovable property in the event of their failure to pay back a loan. These include mortgage bonds, general notarial bonds and special notarial bonds. For these bonds to become enforceable by the lender, a court order is required.

**Books** - An organization's written accounting record.

**Books of Prime Entry** - (Prime means first). Books of prime entry or books of original entry are books where transactions are first recorded. These may or may not be part of the double entry system. The main books of prime entry are: Sales journal, Purchase journal, Cashbook, Petty cash book, Main journal (Also known as General Journal: Used for certain prime entries and correcting incorrect allocations)

**Book value** (Net Book value) - The full purchase price of an asset less the allowable depreciation for that asset. For example, a machine is purchased at R200, 000. For illustrative purposes, we assume allowable depreciation of 20% per annum for five years. This means at the end of the first year, the machine has a book value of R160, 000. At the end of the second year, it has a book value of R120, 000 and so on until its book value is zero at the end of five years.

**Bottom line** - 1. An informal phrase that refers to the last line in an income statement that shows the net income or loss. It can also apply to the last line of a balance sheet showing the net asset or liability position; 2. An informal phrase requesting the final position or essence of any

project, situation or current condition. “What’s the bottom line?”; 3. The main, essential point or the deciding factor.

Registrar of Companies has verified this to his satisfaction.  
**Certificate to Commence Business** - A certificate issued to companies by CIPC. Under the Companies Act, a company cannot start trading or raise finance without a Certificate to Commence Business.

**Certified Public Accountant (CPA)** - An International term for the credential conferred by a state or similar governmental jurisdiction that authorised the holder to practice as a certified public accountant (Auditor) in that jurisdiction. A Chartered Accountant (SA) is the South African similar.

**Cession** - A handing over or surrendering a legal title of an asset to another. For example, a borrower wants to borrow R100, 000. The bank looks for security. The borrower offers a cession of title to his fully paid BMW 6 series. The bank accepts this cession as security and lends the money. If the borrower fails to pay back the loan, the bank can seize his BMW car and sell it to cover the cost of the capital amount, interest and any associated fees or charges.

**Chargeable hours** - Chargeable hours are public accountant-supervised hours normally chargeable to clients, excluding time spent on work of a routine clerical nature.

**Charge-out rate** - The rate, daily or hourly, at which the Client is charged for services provided by the accountancy firm; rate is calculated for each member of staff within the accounting firm based upon a number of factors, including the firm’s cost of wages, benefits, and other overheads

**Chart of accounts** - Structure of the ledger system—basically, a map of the locations available for storage of transaction details

**Chartered Accountant - CA (SA)** - an accountant who has passed the professional examinations of the Institute of Chartered Accountants in South Africa (SAICA). The qualification requires a degree as stipulated by SAICA and the successful completion of a training contract and various exams and practical assignments.

**Chart of accounts** - The chart of accounts for a small business is a plan. It is an index of all the accounts where the company files away its financial information. The chart of accounts is a listing of all the company's account names and numbers where it records its financial



transactions. You develop a chart of accounts before you can set up your general ledger. When you start a new business, you set up your chart of accounts. Small businesses don't all have the same chart of accounts.

The accounts you include in the chart of accounts depends on the type of business. For example, if you have a service business, you won't have an inventory account. If you have a business that sells products, you will, however, need an inventory account.

**Check** - This is what a cheque is known as in the USA.

**Cheque** - (In the USA, a cheque is called a 'check'). A cheque is a specific form of a bill of exchange. The drawer instructs his bank (the drawee on his account) to pay the beneficiary a specified amount. It can be marked “negotiable” or “not negotiable”. [The ancient Romans are believed to have used an early form of cheque known as praescriptiones in the 1st century BC. During the 3rd century AD, banks in Persia and other territories in the Persian Empire issued letters of credit known as chak.]

**Cheque account** - A transaction account on which a cheque book can be or has been issued.

**Cheque stub/counterfoil** - the usual US and Canadian word for counterfoil. The word 'stub' comes from an old English word for a tree stump. It is the part remaining behind. The stub or counterfoil is the part of a cheque, postal order, receipt, etc., detached and retained as a record of the transaction. The stub is attached to a cheque with perforations. The cheque is detached for payment, while the stub may be retained for convenience, with information concerning the cheque. The stub and cheque are both printed with the same number. [The word 'counterfoil' comes from something being a representation of something else. The one represents the other (counter) and the word 'foil' probably meaning 'leaf' or 'sheet'].

**CIMA** - The Chartered Institute of Management Accountants.  
[www.cima.co.za](http://www.cima.co.za)

**CIPC** –See CIPRO

**CIPRO** - Abbreviation for Companies & Intellectual Property Registration Office. This organization registers names of companies, patents, trademarks and has other related services. This has been replaced by CIPC, The Companies and Intellectual Property Commission.

**CK1** - The alphanumeric code used by Companies & Intellectual Property Registration Office for the form used to submit information on

the Founding Statement of a close corporation. These forms (CK 1 and 2) are often referred to as CK forms

**Conveyancer** - An attorney or legal firm that specializes in the transfer of property ownership (known as title deeds transfer) from one person to another. **Corporate acquisition** - The process of a company gaining a controlling stake in another company. This can be 50% or a significant shareholding of the company being acquired. The process is usually facilitated by a merchant bank.

**Corporate governance** - System by which the trustees and officers of an organisation are required to carry out their accountabilities and responsibilities for ensuring that effective management systems, including financial monitoring and control systems, have been put in place to protect assets, earning and capacity and the reputation of the entity concerned.

**Corporation tax** - Corporate income tax. A tax on profits and capital gains made by companies calculated before dividends are paid.

**Cost of goods sold** - Also known as Cost of Sales. It is the cost of producing a product for sale. It is estimated using the inventory figures recorded in the financial statements.  $\text{Cost of Goods Sold} = (\text{Opening Inventory} + \text{Inventory Purchased}) - \text{Closing Inventory}$ . The costs included are the raw material costs, inventory costs and the production costs. The production costs are included by way of the increased value of the inventory by assembling or processing the raw material. You don't need to go outside the inventory values to source an estimated production cost. It does not include distribution costs, non-production salary costs and general overheads.

**Cost of Sales** - Another term for cost of goods sold. It is the cost of manufacturing a product so it is ready for sale. The concept of "manufacturing" – preparing for sale – differs in various industries. So for example, the cost of sale in a retail environment will seem different to that of a steel mill. But they are, in fact, similar. In retail, it may relate to all costs associated with getting a sourced product into their store room ready for sale. In the steel mill, it is getting the steel to a point where it can be stored in their store room ready for sale.

**Covenant** - 1. A written undertaking given by a borrower to a lender to comply with a certain condition of a loan. For example, the Directors agree not to pay out any dividend to shareholders until the loan is repaid in full. 2. A contract where a donor agrees to make regular payments to a

charity. 3. A solemn agreement. The word covenant has strong religious connotations of an agreement with or commitment to God.

**Credit agreement** - 1. Generally, an agreement to offer credit by a credit provider and an acceptance of this credit on specified terms by a borrower. 2. A regulated credit agreement in terms of section 8 of the National Credit Act. A credit agreement is defined as a credit facility, a credit transaction, a credit guarantee or any combination of all three. In terms of section 8(2), the following are excluded from the meaning of a credit agreement: insurance policies or credit advanced solely to pay for these; leases on immovable property; and loans between a stokvel and its members. The Act also excludes some other forms of agreements from its scope. These include: personal loans between family and friends; loans made to a company by its owners and directors; and loans from government institutions. Unlawful agreements in terms of the National Credit Act are credit agreements entered into by: a minor not assisted by his legal guardians; a person declared mentally unfit prior to the agreement; an insolvent subject to a court administration order; unregistered credit providers. In addition, any credit agreement issued as a result of negative option marketing is also regarded as an unlawful agreement.

**Credit bureau** - A company that collects, packages and sells credit, debt and legal information on individuals, close corporations and companies. This information is then used by other companies and financial institutions to assess the creditworthiness of individuals, close corporations or companies seeking credit. Credit bureaus are now regulated in terms of the National Credit Act. “Bureau” is the French word for “office”. The plural of bureau is sometimes written bureaus or bureaux.

**Credit check** - A process done by a credit provider, often using the services of a credit bureau, to assess the known credit history of a credit applicant and to assess their ability to service and repay any credit extended.

**Credit dept.** - The department in a credit provider, such as a bank, responsible for reviewing, amending approving or rejecting all applications for credit to the bank or company. Its job is to ensure the company's lending policies are complied with.

**Credit facility** - Where a credit provider offers a credit mechanism to a client that is open to use as and when the client needs the facility. Examples include the credit limit on a credit card, an overdraft facility

on a cheque account, or a credit limit on a store card open to use as and when the consumer wishes to use it. A credit facility is defined in these terms in section 8(3) of the National Credit Act.

**Debt to equity ratio** - The ratio of total liabilities divided by ordinary shareholders equity and expressed as a percentage.  $\text{Debt/Equity Ratio} = \frac{\text{Total Liabilities} \times 100\%}{\text{Ordinary Shareholders Equity}}$  The ratio compares a company's total liabilities to its total ordinary shareholders' equity. This is a measurement of how much suppliers, lenders and other creditors have committed to the company versus what the shareholders have committed. A conservative lender will want to see a low debt to equity ratio with ordinary shareholders equity carrying the primary risk of the business. Other leverage ratios are the debt ratio and the debt service coverage ratio.

**Deceased estate** - The personal property and possessions of a person who has died, as well as any monies owed to or by them. The administration and settlement of a deceased estate is governed in terms of the Administration of Estates Act, 1965, and falls under the jurisdiction of the Master of the High Court.

**Deductible expenditure** - Any expenditure of a capital nature that is incurred during the tax year in order to produce income for your business, such as operational expenses, assets bought for the business and so on.

**Deed** - A legal document especially relating to property ownership or legal rights. (Source: Concise Oxford English Dictionary, revised 10th edition)

**Deeds Office** - The Deeds Office, falling under the Dept of Land Affairs, is a government registry of ownership in all immovable property and other rights in immovable property. It processes title deeds transfer for all immovable property sales in South Africa and the attachment of any mortgage bonds on such transfers. It also registers general and special notarial bonds over assets

**De facto** - A Latin phrase literally meaning “of fact”. In English, it means „existing in factâ” – whether by right or not. For example: “He has de facto occupation of the construction site although he does not appear to have a legal right to it.” being held until a future date. If an action, for example, was planned to happen now but is deferred, it is postponed until another future time.

**Deferred** - Delayed or postponed until a future date. A payment can be deferred by being held until a future date. If an action, for example, was

planned to happen now but is deferred, it is postponed until another future time.

**Deposit** -1. To place (money) in a bank or similar institution in order to earn interest or for safekeeping.

2.To give (money) in part payment or as security.

3. an instance of entrusting money or valuables to a bank or similar institution

3.the money or valuables so entrusted

4. Money given in part payment or as security, as when goods are bought on hirepurchase.

A down payment made by you on a flat held where the owner holds this amount as security.

5. A consideration, especially money, given temporarily as security against loss of or damage to something borrowed or hired.

**Depreciation** - The progressive reduction of the estimated value of a tangible asset over the expected useful economic life of that asset. For example, a machine has a purchase value of R1 million and an estimated economic life span of ten years. Its value can be reduced, for example, by R100, 000 per annum in the balance sheet.

**Depreciation policy** - The policy adopted and usually recorded in the financial statements of a company that outlines the choices being made on the depreciation of tangible assets. There are a variety of different methods of depreciation. Some are based on time – a set amount of depreciation per annum. Others are based on usage of equipment or production volumes. The depreciation policy clarifies what method is being used in the financial statements.

**Director** – 1. A person in charge of an activity, organization or division of an organization. 2. A member of the governing body of a company with overall responsibilities for the good governance, financial solvency and strategic direction of a company. A director is normally appointed by the shareholders or by the other directors in terms of the Articles of Association of the company.

**Directors can be executive or non-executive.**-An executive director is a senior member of the management team and actively involved in the day to day management of the company – such as a Finance Director. A non-executive director is a member of the Board of Directors but not involved in the day to day management of the company. Their role is to provide strategic input and support to the executive team, help to guide it in its policies and decision making and to add value in the form of an

independent and balanced perspective. Directors have increasingly high legal responsibilities and potential personal liabilities for the effective running and operation of a company.

**Direct taxes** - Taxes that are imposed on persons. The term 'person' relates to individuals and to legal entities (companies, CCs, trusts, deceased estates).

**Equity trading** - Trading on an equity stock market exchange in ordinary shares in the secondary market for ordinary shares. It increasingly also includes derivative and futures trading.

**Estate** - 1. A person's money and property at the time of their death. 2. The money and property of a company or individual when they are declared insolvent. 3. A large area of land with a large house on it. 4. A residential, industrial, office or commercial development. 5. Agricultural land used to grow a variety of commodities or crops such as rubber, coffee, tea and so on.

**Euro** - (sign: €; code: EUR) The official currency of the European Union (EU). In early 2010, it is in use in sixteen of the twenty seven Member States of the EU. The sixteen states, known collectively as the eurozone, are: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. The currency is also used in a further five European countries, with and without formal agreements, and is consequently used daily by some 327 million Europeans. The euro is the second largest reserve currency as well as the second most traded currency in the world after the U.S. dollar.

**Exclusive of VAT (Compare Inclusive)** - If a price is quoted as 'VAT exclusive', that means the VAT portion of the cost of the item is excluded, and needs to be added. If an item costs you R 500.00 and is exclusive of VAT, that means the price is R 500.00 and the VAT of 14% is still to be added. Once it is added, the price you finally pay is R 500.00 plus R 70.00 (14% of 500), which totals R 570.00. Inclusive of VAT would mean that the VAT portion of the price you will pay is already included in the price quoted. In this case the item would be quoted as R 570.00 which has R 70.00 already added into the price.

**Exchange control regulations** - See foreign exchange controls.

**Exchange rate** - The price of one currency in terms of another. An exchange rate is normally expressed in terms of how many units of the local currency are required to purchase the foreign currency. For

example, ZAR7.5/US\$1, where ZAR is a South African Rand, US\$ is a United States dollar and the 7.5/1 indicates the ratio. The exchange rate is quoted in terms of “buy” and “sell” with the difference indicating the profit or commission being charged. There are also different rates quoted for cheques, cash and bank transfers as each of these categories has a different handling cost for the bank or exchange broker. Better rates can be achieved for large transactions. Each currency has a unique three letter alphabetical code and a supporting three digit numerical code. The latter numerical code is simpler for use in computer programming – crucial to interbank payment systems. These identifiers are set out in a standard created by the International Standards Organisation. For example, the alphabetical codes for the Rand, US dollar, Euro, Yen and the Pound Sterling are respectively: ZAR, USD, EUR, JPY and GBP.

- **Fixed assets register** - (Information supplied by Pastel) South African Company Law requires that businesses keep a register of their fixed assets as part of their accounting records. However, managing your company's fixed assets can be tedious and timeconsuming.
- Fixed assets are physical items such as desks, computers, cars, machinery, and so on, which you acquire to run your business. As you use assets, they depreciate or become obsolete. You can legally expense depreciation in your accounts and for tax purposes.
- **Foreign exchange** - The system by which one currency is converted into another, enabling international transactions to take place and for people to travel from one country to another.
- **Forex** - Abbreviation for Foreign Exchange.
- **Formal sector (formal economy) and informal sector or economy** - The formal economy is the one regulated by laws and the government and where the production from this sector is counted in the production statistics of a country. The informal sector is, simply put, the economic activity that is neither taxed nor monitored by a government, and is not included in that government's Gross National Product (GNP), as opposed to a formal economy. A street vendor is part of the informal economy whilst Pick 'n Pay is part of the formal economy.
- **Founding Statement** - A document required to establish a close corporation in South Africa. CIPRO provides a form, known as a CK1. In this, the following information must be completed: the full

legal name of the company; the principal business of the corporation; the postal and physical address of the company; the full name, ID number, date of birth and residential address of each founding member of the corporation; the financial contribution made to the corporation by each member; details of the accounting officer; and the date of the corporation's financial year end.

**FTSE - FTSE 100 Index** - A market-weighted index of the 100 leading companies traded in Great Britain on the London Stock Exchange. The Financial Times calculates several other indexes, although financial commentators typically refer to the FTSE 100 when they say "Footsie." The full name is Financial Times-Stock Exchange 100 Share Index.

**Financial interest** - An interest in equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

**Financial planning** - Financial planning is the process of providing comprehensive assistance and support to meet a Client's financial needs and goals in rapidly changing regulatory environments.

**Financial statements** - The presentation of financial data, including accompanying notes derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a comprehensive basis of accounting.

**Firewall** - A combination of hardware and software that protects a WAN, LAN or PC from unauthorised access through the internet and from the introduction of unauthorised or harmful software, data or other material in electronic form

**Firm** - A sole practitioner, partnership, corporation or other entity of professional accountants; An entity that controls such parties through ownership, management or other means; or An entity controlled by such parties through ownership, management or other means.

**Forecast** - Prospective financial information prepared on the basis of assumptions as to future events that management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions)

**Fraud** - An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Two types of intentional misstatement are relevant to the



auditor: those resulting from fraudulent financial reporting and from misappropriation of assets (See also Fraudulent financial reporting and Misappropriation of assets)

**Headline Earnings** - Is the amount of how much money a company is really making. Headline earnings strips out certain things that have't got to do with the company's trading performance. The profit or loss from selling of an asset or a subsidiary will be excluded, as well as impairments on assets. The headline earnings number is also used to calculate a company's price earnings ratio.

**Hedge** - To protect an investment or other financial transaction against loss by putting in place balancing or compensating contracts or transactions. A "hedge" is put there to limit or confine one's exposure to loss. For example, a small contractor wins a major fixed price construction contract from a municipality. He then goes to his building supplier to confirm in writing that the building materials supplier will deliver at or below the building material prices the contractor quoted in his tender submission. By getting this written agreement from the building materials supplier, one variable (building material prices) that could lead to him losing money on this construction contract has been "hedged".

**Hedge fund** - Investment funds that seek to deliver high speculative returns to investors through aggressive derivative trading. The funds often use high levels of gearing to maximize gains. There have been some spectacular hedge fund losses and collapses as well as gains.

**High Court** - A senior court in South Africa that hears serious criminal charges and any civil matter with a value of over R100, 000. The High Court also usually hears any matter involving a person's status (for example, adoption, insolvency). They hear any appeals or reviews from lower courts (magistrates' courts) which fall in their geographical jurisdiction. There are thirteen High Courts in South Africa.

**HIV** - Human immune-deficiency Virus  
**Gross profit** - The net sales or sales revenue of a company less the cost of goods sold.

**Holding company** - 1. A company which owns 50% or more of the shares in another company or companies.  
2. A company which exists only or mainly to own shares in associated or subsidiary companies. (Source: Dictionary of Accounting, 4th Edition)

**IAS** - International Accounting Standards. An older set of standards stating how particular types of transactions and other events should be reflected in financial statements. In the past, international accounting

standards (IAS) were issued by the Board of the International Accounting Standards Committee (IASC). Since 2001, the new set of standards has been known as the international financial reporting standards (IFRS) and has been issued by the International Accounting Standards Board (IASB).

**IASC**- International Accounting Standards Committee. See IAS above.

**ICB** - The Certified Institute of Bookkeepers.

**Identity theft** - A crime in which a fraudster obtains key pieces of personal information (such as ID number, cell phone SIM card, Social Security or driver's license numbers) in order to impersonate someone else. The information can be used to obtain credit, goods or services in the name of the victim, or to provide the thief with false credentials. In addition to running up debt, an imposter might provide false identification to police, creating a criminal record or leaving outstanding arrest warrants for the person whose identity has been stolen.

**IFAC** - The International Federation of Accountants. IFAC is the global organization for the accountancy profession and is committed to protecting the public interest by developing high-quality international standards, promoting strong ethical values, encouraging quality practice, and supporting the development of all sectors of the profession around the world.

**IFRS** - International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board (IASB). Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IAS were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS standards and continued their development, calling the new standards IFRS.

**Impairment** - An unexpected or sudden decline in the estimated value of an asset, such as a factory, investment, property or a vehicle leading to a revaluation. This revaluation could be the result, for example, of physical damage, obsolescence, market collapses, or legal changes. An asset is considered to be value-impaired when its book value exceeds the future net cash flows expected to be received from its use. An impairment write-down reduces an overstated book value to fair value. This drop in value, the impairment, is written off the balance sheet and posted as an expense in the income statement. This is recorded as a special non-recurring charge.

**Legal tender** - Money that must be accepted for payment of a debt in a country. Legislation defines the legal tender in that country. It can be limited legal tender or unlimited legal tender. Limited legal tender applies, for example, to the quantity of coins that must be accepted to settle a debt. Unlimited tender normally applies to the bank notes where there is no limit on the quantity that can be accepted in settlement of debts of any amount.

**Lessee and lessor** - Lessee: A person to whom a lease is granted; a tenant under a lease. Lessor: A person who grants a lease of property. Collins English Dictionary – Complete and Unabridged © HarperCollins Publishers 1991, 1994, 1998, 2000, 2003.

**Letter of credit** - Also known as documentary credit. A letter from one bank to another bank authorizing the payment of a stated amount to a named person or organization in specified conditions. For example, a South African company is purchasing a large piece of machinery in Germany. The manufacturer of the machinery requires payment in Euros when the machinery is loaded on board ship for export. The South African company's bank issues a letter of credit to a German bank for the payment in Euros to the manufacturer. The condition of payment in the letter of credit is his presentation of documents proving delivery on board the stated ship or shipping company. In this way, the German manufacturer knows he will get paid and the South African company knows its machinery will only be paid when it is on board ship for export. The German bank will scrutinize the documents submitted by the German manufacturer as proof of delivery on board ship. If these are as stated in the letter of credit, the German bank will pay out the amount in Euros and recover this from the South African bank. The South African bank will, in turn, recover the money from the company.

**Listed entity** - An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body

**Life insurance policy** - Insurance that pays out an amount on the death of a person. If there is an endowment policy with the basic life cover, an amount will be paid out when they reach a certain age or the policy is held for a stated number of years.

**LIFO** - (see FIFO)

**Limited liability** - This is a legal company structure protecting shareholders in a company by restricting their liabilities to the face value of their shares. The limited liability company (public or proprietary) is

the basic commercial structure developed historically to allow individuals to carry on a business without exposing all their personal assets to the risk of a business failing, resulting in personal bankruptcy. (Source: The Language of Money, Edna Carew)

**Liquid assets** - Assets that are cash or that can be converted into cash quickly.

**Liquidation** - The process of winding up or dissolving a company or close corporation. Liquidation can be voluntary or compulsory. A voluntary liquidation is where a company or closed corporation is wound up under the direction and control of the company or close corporation. A compulsory liquidation is a liquidation instigated by creditors of the company or close corporation and enforced by a court order. In South Africa, this court order is issued by the Master of the High Court. The property of the company is sequestrated (taken legal possession of by the court) and a liquidator is appointed to administer the estate and pay creditors from the assets of the estate. Liquidation can be solvent or insolvent. A solvent liquidation is where the assets outweigh the liabilities of the company and all the creditors get paid in full. Any remaining surplus assets are then distributed to the members, shareholders or as specified in the Articles of Association or Memorandum of Association. In an insolvent liquidation, creditors will not receive full payment.

**Liquidator** - Also known as an insolvency practitioner. A person appointed by the shareholders, unsecured creditors, or a court order to manage the winding up of a firm by selling off its assets. On appointment, the liquidator assumes control of the business, collects and auctions off its free assets (i.e. assets not attached as security) in a reasonably short time, pays the unsecured creditors from the proceeds of the sale, and (if any money is left) distributes it among the shareholders in proportion to their shareholdings. The Companies Act, 2008, has given the legislative basis to create a formal national list of insolvency practitioners. To gain entry to this list, it is expected that an insolvency practitioner will need to be a natural person qualified as an attorney, advocate or a registered chartered accountant. The list is expected to cover all forms of practitioners appointed by the Master of the High Court including trustees, curator bonis and liquidators.

**Liquidity** - 1. A measure or estimation of the ease or time required to turn an asset into cash.

2. The ability of a company to meet its debts.
3. A measure of the frequency and volume of trade in a specific share or other negotiable instrument. For example a small, marginal company may have few active buyers or sellers. A company like Standard Bank has many. The liquidity of Standard Bank's shares is high. The liquidity of the small marginal company would be low. A share with low liquidity may be on the market for quite some time awaiting a buyer.

**Liquidity ratio** - 1. Another term for the cash ratio. See cash ratio.

2. Ratios that give a measure of the ability of a company to pay its debts as they become due and their potential ability to turn assets into cash to service debt. The liquidity ratios are: cash ratio, acid or quick test, interval ratio, current ratio and current asset ratio. Liquidity ratios are, by definition, also solvency ratios. The primary definition of solvency is the „ability to pay debts as they become due". Solvency requires liquidity to the degree necessary to pay one's bills as they become due.

**Listing** - the granting of permission by a stock exchange for a company to list its shares on that stock exchange. (Source: Wuite) **Loan account** - A recording of the amount of monies owed to or by an owner, member, shareholder or related company. This is recorded in the balance sheet of a company or close corporation.

**Loan certificate** - This means some evidence that the balances showing loans in the company records is accurate. This evidence can be in the form of a certificate signed by the business owner or accounting official.

**Long-term** - A relatively long period of time. The actual time frame that applies to the phrase depends on the particular market, sector, instrument and country. In South Africa, the term generally means a period longer than one year.

**Main Journal** (Also known as General Journal) - A journal used to make corrections to entries made in a set of books that was done incorrectly.

**Management** - Comprises officers and others who also perform senior managerial functions. Management includes those charged with governance only in those instances when they perform such functions

**Management accounts** - Financial information prepared by and for management to assist in making daily management decisions. The information will include monthly and quarterly financial statements, with a supporting detailed breakdown and often comparing actual financial performance against budget projections.

**Management letter** - A letter from an accountant or an auditor indicating areas of improvement in controls in the client's business.

**Managerial employee** - An employee who acts in a managerial capacity within the structure of the firm, including providing oversight, in the provision of services to clients

**Market capitalization** - The value of a stock exchange quoted company assessed by multiplying the number of shares issued by the current market price. This valuation is open to share price fluctuation and is not related directly to its underlying assets. It is the value assigned to the company by market sentiment.

**Market value** - 1. The value of an asset if it were to be sold on the open market as its current market price.

2. The price of a share or security quoted on an exchange.

3. The value of a company quoted on a stock exchange calculated by the quoted price of the share on the exchange multiplied by the number of shares issued. Market Value of a Listed Company =

Share price x Number of Issued Ordinary Shares  
**Mark-up** - The difference between the selling price and the cost price of a product or

service. This can be expressed as an amount or more usually as a percentage based on the cost price.

Percentage mark up =  $(\text{Selling price} - \text{Cost price}) \times 100\% / \text{Cost price}$

Mark up and profit margin are not the same. See profit margin.

**Matching Principle** - In order to comply with the generally accepted accounting

principles (GAAP), companies must determine the exact time when revenue and expenses occur. This is the basis of the GAAP Matching Principle, which recognizes exactly when the revenue and expenses are incurred and allows companies to gain an accurate analysis of current accounts at any point during the accounting period. The principle is part of the accrual basis of accounting.

**Maturity value** - The value of an investment when it reaches its end or final date and when any outstanding capital amount usually gets paid back.

**Member** - A member of a professional body that has adopted the Code of Ethics for Professional Accountants issued by IESBA as applicable to their membership, as defined by that professional body.

**Member of a close corporation** - The owner of a close corporation. There can be up to ten members of a close corporation. It is equivalent to a shareholder in a private or public company.

**Memorandum of Association** - This is a founding document of a company and its purpose is to regulate the external affairs of the company. The Articles of Association are aimed at regulating the internal affairs of a company. The memorandum records: the legal name of the company; the names of its shareholders and the number of shares held by each; the location of its registered office; the company's objectives; the amount of authorized share capital; the liability of the members as limited or by guarantee; and what type of contracts the company can enter into – such as authority to open a bank account and so on. Its provisions can be amended by the members or shareholders by following the procedures laid out in the Memorandum for such circumstances. It must be submitted to CIPRO prior to the issue of a Certificate of Incorporation. Any changes to the Memorandum of Association must be submitted and kept up to date at CIPRO. It is a public document and can be inspected by any member of the public through CIPRO.

**Merchant bank** - Also known as an investment bank. It is a type of bank with a specialised range of services for corporate clients and large investors. It advises on stock market listings and other primary market issues going to the capital markets to raise new capital. It can advise on mergers & acquisitions. A merchant bank makes most of its income from fee based revenue and has little or no credit lending activities. It will often arrange large syndicated facilities through other banks and take a fee. The second stream of income for a merchant bank is its own profit or loss from its own investment and trading on the money, capital and foreign exchange markets.

**Minor** - A person under the age of full legal responsibility. In South Africa, the legally accepted adult age is eighteen years. A person below this age is defined as a child. **Minority holding** - A small or minor shareholding in a company that does not have substantial control or influence.

**Minutes** - Minutes, also known as protocols, are the instant written record of a meeting or hearing. They often give an overview of the structure of the meeting, starting with a list of those present, a statement of the various issues before the participants, and each of their responses to these issues. They are often created at the moment of the hearing by a secretary or court recorder at the meeting, who may record the meeting, and then prepare the minutes and issue them to the participants afterwards. Alternatively, the meeting may be audio-recorded or a

group's appointed or informally assigned Secretary may take notes, with minutes prepared later. However it is often important for the minutes to be brief and concentrate on material issues rather than being a verbatim (word for word) report, so the minute-taker should have sufficient understanding of the subject matter to achieve this. The minutes of certain entities, such as a board of directors, must be kept and are important legal documents. This is true for various labour hearings.

**Misappropriation of assets** - Intentional, illegal use of the property or funds of another person for one's own use, particularly by a public official or a person who has a fiduciary duty

**Mission** - A formal document that states the aims of an organisation or organisation

**Monetary policy** - The central bank policy that influences the money supply levels within the economy. The inflation target range, the bank rate, the amount of bank notes and coins put into circulation by the Reserve Bank and the levels of minimum bank reserves are the key factors used to regulate money supply.

**Money market** - Market in which money is borrowed and lent for periods of less than one year by corporates, banks and large public and private institutions.

**Monopoly** - The exclusive possession or control of the supply of or trade in a commodity, good or service. (Source: Oxford Concise English Dictionary, Revised 10th Edition) Note: The general legal and commercial definition of a monopoly is where a company supplies 20% or more of the volume of a market. This is regarded as having a substantial commercial effect on the market.

**Mortgage** - 1. A financial loan granted by a mortgage lender for the purchase of a residential, commercial or industrial building, agricultural land or other form of immovable property. The financial loan is supported by the security of a mortgage bond on the property being purchased.

A mortgage, in the sense of a financial loan, can also be granted for the purchase of other goods such as capital equipment.

2. The legal agreement, also called a deed or bond, specifying the terms and conditions under which the lender may make claim to the immovable property. There may be more than one mortgage legal agreement attached to an immovable property.

3. A pledge of immovable property to a creditor as security for performance of an obligation or repayment of a debt. For example: "I



needed a loan for my business. I mortgaged my home to the bank for this business loan.” There may be more than one mortgage financial loan associated with an immovable property.

4. The claim of a financial lender upon a mortgaged property. For example: “ABC Bank has a mortgage on that property. You will need to sell to settle that claim.” The word origin is “mort”, Latin for „death” and “gage”, German for „pledge”.

**Mortgage bond** - A legal agreement giving a mortgage lender legal claim over an immovable property in the event of the borrower being in default of a mortgage agreement. The mortgage lender attaches a bond on the property as security in the event of default by the borrower on the financial loan made to him. The mortgage bond is registered in the Deeds Office and attached to the title deeds of the property. Where a mortgage bond is attached to immovable property, the mortgage lender retains the title deeds in their possession. For the mortgage lender to exercise their rights in terms of the registered bond, a court order must be sought and received.

**Movable property** - Property that is not immovable. A car, truck or a TV plasma screen are examples of moveable property.

**Narration** - Descriptive text explaining the reason(s) for an entry in a general or main journal. To narrate is to 'tell a story'. A narration is therefore 'a story told', from the Latin word 'narrare' meaning the same thing as narrate.

**NASDAQ** - 1. Abbreviation for National Association of Securities Dealers Automated Quotation System 2. A large US stock exchange owned by the National Association of Securities Dealers. This exchange's index is reported daily on a world wide basis and is closely watched as an indicator for global technology stocks.

**National Credit Act** - Legislation with far reaching implications for the banking sector and all other credit providers. Approved in 2005, it aims to regulate the credit lending industry and to protect the rights of consumers in the credit market in South Africa. It regulates all credit providers, debt counselors and credit bureaux. It specifies how a range of credit lending practices must be conducted. And it establishes the National Credit Regulator.

**National Treasury** - A division of the Ministry of Finance of South Africa. It is responsible for coordinating macroeconomic policy and promoting the national fiscal policy framework. Its role is defined in the Constitution of the Republic of South Africa and within the Public

Finance Act. It co-ordinates the preparation of the Government's annual national budget and control over its implementation. This is effectively a pivotal division of the civil service working with SARB, SARS and all government departments on fiscal and financial issues.

**Natural person** - A human being. In a legal sense, it is used to distinguish between a natural person and a juristic person – the various forms of company incorporation. Different legislation or common law interpretation may define a natural person slightly more broadly. For example, the National Credit Act defines a trust with two natural persons as trustees as a “natural person” for the purposes of that Act. **NCA** - Abbreviation for National Credit Act.

**Negligence** - 1. A failure to take proper care of something. 2. In law, a breach of a duty of care from which damage resulted. (Source: Concise Oxford English Dictionary, Revised 10th Edition)

To prove negligence in a court of law, you must first show there was a duty of care. Next, you must show there has been a failure of that duty. Last, you must show the damage was caused by that failure of duty. For example, a passenger falls out of a train. The door lock was broken and when he leaned against it, it opened and he fell out. He now needs to find the person who owed him a duty of care to ensure the door lock was not broken. The ticket collector, for example, may owe him a duty of care. Did the ticket collector know about the broken door lock? Should he have known about the door lock? Was he negligent about allowing the train to be put in service with the door lock broken? And so on. It may turn out that the lock was broken minutes before by some youth. The train company may have had train security in place to reduce vandalism. And therefore the ticket collector and the train company may be found by the court to have fully exercised their duty of care and there is therefore no negligence on their part for the damage incurred. The passenger then has no legal recourse for compensation for his injuries based on negligence.

**Negotiable** - Legally transferable in title from one party to another. Negotiability, would refer the degree that the item is in fact negotiable. Sometimes this can be more difficult to do.

**Net Book Value** - See Book value.

**Net profit** - Also known as profit after tax and net income. The profit of a company for a specified time period after all costs and taxes have been

deducted. The net profit figure is recorded at the bottom of the Income Statement and hence

is often referred to as the “bottom line”.

**Net profit margin** - A ratio calculated as net profit divided by net sales and expressed as a percentage.  $\text{Net profit margin} = \text{Net profit} \times 100\% / \text{Net sales}$  The net profit and net sales figures are recorded in the Income Statement. The net profit margin is a measure of the percentage of every rand of sales a company actually keeps in profit.

**Net profit percentage** - Another term for net profit margin. See net profit margin.

**Net sales** - Also known as Sales Revenue. Gross sales revenue less returns, discounts, allowances and any sales tax.  $\text{Net Sales} = \text{Gross Sales} - \text{Returns} - \text{Discounts} - \text{Allowances} - \text{Sales Tax}$  These various deductions are done by the company's accountant during the compilation of the income statement. The final figure in the income section of the income statement is called either net sales or sales revenue.

**Net worth** - The value of a company or individual after all liabilities have been deducted from their asset value. In a company, this would also be the shareholder's equity or net assets.

**New listing** - 1. A company seeking to list on a stock exchange for the first time by way of an initial public offer. 2. A security that has recently been added to a stock exchange's trading list. The security may have been moved from the over-the-counter market or from a different exchange.

**New York Stock Exchange** - (NYSE) The largest stock exchange market in the world and physically located on Wall Street, New York. The market capitalization of its listed companies was US\$ 28.5 trillion as of May 2008. (Source: Wikipedia)

**NGO** - Abbreviation for Non Governmental Organisation

**NHBRC** - Abbreviation for the National Home Builders Registration Council.

**Nominal value** - Also known as face value or par value. 1. A value that is stated but which may not relate to its realizable value. 2. The value printed or stated on a bank note, a coin, ordinary share, securities and so on.

**Non-chargeable time** - Time spent by staff or partners of an accounting firm, which cannot be charged to a client.

**Noncompliance** - Refers to acts of omission or commission by the entity being audited, either intentional or unintentional, that are contrary to the prevailing laws or regulations

**Non-current asset** - An asset with an economic life span of longer than one year.

**Non-distributable reserves** - Non-distributable reserves are those funds which cannot be distributed to shareholders in the form of dividends. These funds consist of the original share capital of the company, any funds raised through the sale of newly issued shares or funds released due the revaluation of assets. Distributable reserves are those reserves built from the declaration of profit and that are distributable to shareholders in the form of dividends.

**Non Governmental Organisation** - A private sector, voluntary (and usually non-profit and non-sectarian) organization that contributes to, or participates in, cooperation projects, education, training or other humanitarian, progressive, or watchdog activities. (Source: BusinessDictionary.com)

**Non-liquid assets** - Assets that cannot be turned into cash or a cash equivalent in a short or medium period of time. A building, for example, is a non-liquid asset. It takes time to put it on the market, find a buyer, to confirm a financial ability to pay, to transfer the title deeds and then finalize payment.

**Notarial bond** - A bond over assets which has been attested to in front a notary. This bond, acting as a security, is then registered with the Deeds Office. There are two types of notarial bonds. See general notarial bond and special notarial bond.

**Notary or Notary Public** - Plural is Notaries Public and abbreviated is NP. A person legally empowered to witness and certify the validity of documents and to take affidavits and depositions (testimony recorded for use in court at a later date). The American Heritage® Dictionary of the English Language, Fourth Edition copyright ©2000 by Houghton Mifflin Company. Updated in 2009. Published by Houghton Mifflin Company. All rights reserved.

**Off-balance sheet** - An asset, debt, contingent liability or financing activity not on a company's balance sheet. The formal accounting distinction between on and off-balance sheet items can be quite detailed and will depend to some degree on management judgments. In general terms,

an item should appear on the company's balance sheet if it is an asset or

liability that the company owns or is legally responsible for. Uncertain assets or liabilities must also meet tests of being probable, measurable and meaningful. For example, a company that is being sued for damages would not include the potential legal liability on its balance sheet until a legal judgment against it is likely and the amount of the judgment can be estimated. If the amount at risk is small, it may not appear on the company's accounts until a judgment is rendered. The levels of off balance sheet activity can be very substantial – particularly in the finance sector. Securitisation of assets leads to allowable off balance sheet finance. Assets under management or brokerage services are other categories of off balance sheet activity as the financial institution has no direct claim or liability for the assets. The fiduciary duty of care for brokerage or asset management services may only be carried on the balance sheet through an insurance policy. See off balance sheet finance, nonconsolidated subsidiary, special purpose vehicle and ring fence. (Source: Wikipedia)

**Off-balance sheet finance** - Finance that does not appear on the balance sheet of a company and permissible in terms of generally accepted accounting principles and tax laws. Off balance sheet finance has a number of important implications in banking. First, a client may wish to structure loans and credit facilities as off balance sheet finance. An operating or rental lease is a common example of an asset finance option that provides an off balance sheet finance solution for some clients. The client may be motivated to keep debt ratios low for investor confidence or to avoid breaching debt covenants with other financial lenders. These ratios are generated from the balance sheet of the company's financial statements. If new debt does not appear in the balance sheet, it will not affect the ratios. It is important to know why a client is pursuing off balance sheet financing and understand it sufficiently to assess whether it poses a risk to bank lending. Some major corporate collapses have had their origins in overly complex off balance sheet activities and financing arrangements. Second, when evaluating the debt burden of a potential and current client, off balance sheet financing may or may not be noted in the Annual Financial Statements. You may not know the full levels of debt being carried by a client. With a corporate client, there may also be one or more off balance sheet subsidiaries with substantial liabilities that may not be immediately visible. Without reliable data on existing off balance sheet activities and financing, your evaluation of a client for lending purposes may well be seriously flawed. Third, banks themselves

have made extensive use of off balance sheet financing to maximize their ability to remain within the capital reserve requirements of central banks, maximize their ability to lend and to participate in other lucrative financial activities. The securitization of mortgage loans and their onward sale to institutional investors has been one major root factor behind the recent crisis in global financial markets. This is an off balance sheet finance technique and has contributed to the collapse of some of the former leading US investment banking firms.

**Ombudsman** - A person who investigates complaints and mediates fair settlements, especially between aggrieved parties such as consumers or students and an institution or organization.

**Operating costs** - Another term for operating expenses.

**Operating expenses** - The expenses incurred from the normal day-to-day trading activities of a company in its delivery of goods or services. Operating expenses include the cost of goods sold, selling expenses, general & administrative expenses, depreciation and amortization expenses and other general expenses. Operating expenses do not include expenses from other activities of the company such

as financing or investment activities.

**Operating Income** - The income arising from a firm's primary business operations. It is calculated by deducting the operating expenses from net sales.

$$\text{Operating Income} = \text{Net Sales} - \text{Operating Expenses}$$

It is a measure of how much profit was generated by the day to day operations of the business. It is valuable to identify this as this is normally the „motorâ" of a business. The operating income generated is then available to pay the other costs of running a business such as interest charges, capital repayments due, taxes and so on. It will not include income from the sale of non-current assets, investment income and

other income arising from activities other than the companyâ"s primary trading activities.

**Operating profit** - Another term for operating income.

**Operating profit margin** - A ratio of operating income (net sales less operating expenses) to net sales expressed as a percentage. 
$$\text{Operating profit margin} = (\text{Net Sales} - \text{Operating Expenses}) \times 100\% / \text{Net sales}$$
 Operating profit margin ratio analysis measures a companyâ"s

operating efficiency – how effective a company is at controlling the costs and expenses associated with their normal business operations.

**Operational risk** - Risk that deficiencies in information systems or internal controls will result in unexpected loss. This risk is associated with human error, system failures and inadequate procedures and controls

**Opportunity cost** - The cost of not doing one thing by choosing to do another. For example, you choose to buy a new car. The interest you could have earned by putting your money in a savings account is an example of the opportunity cost of purchasing the car.

**Ordinary share** - A unit of the share capital of a company. Ordinary shares entitle their holder, the shareholder, to dividend payments when these are declared and paid out by the Board of Directors of the company. Ordinary shareholders are also able to attend the Annual General Meeting of the company and speak at these. Although the ordinary shareholders own the company, they have no liability, through their share ownership, for the debts of the company beyond the face value of the ordinary shares they hold. Equally, if the company is wound up, they have no claim, through their share ownership, over the assets of the company until all other debtors have been paid.

**Organogram** - An organisational chart (often called organisation chart, org chart, organigram(me), or organogram(me)) is a diagram that shows the structure of an organisation and the relationships and relative ranks of its parts and positions/jobs. The term is also used for similar diagrams, for example ones showing the different elements of a field of knowledge or a group of languages.

**Output tax** - The VAT amount that is added to sales invoices. The Value Added Tax charged by a vendor on the sale of standard-rated goods or services.

**Overdraft** - A loan facility on a bank account allowing the balance to go into debit up to a pre-defined limit normally for a short period. An overdraft is meant to move from a credit into a debit and back into a credit on an ongoing basis – this is known as „revolvingâ" the overdraft facility. Overdrafts are “on demand” facilities meaning a bank can request immediate repayment at any time.

**Owners' equity** - Technically, the term ownerâ"s equity applies in the case of a sole proprietor. The correct term for a company is shareholders capital or shareholders equity. Generally, the total assets of a company less its total liabilities. Owners Equity = Total Assets – Total Liabilities.

This is recorded in the balance sheet and is normally presented on a „going concernâ" basis. In principle, this is the estimated value of the company to shareholders if it was to be sold as a going concern with book value valuations applying to its assets and liabilities. For lending purposes, a credit provider is likely to strip out the intangible assets and revalue the remaining assets from book value to realisable value. This revised ownerâ"s equity figure is then a more realistic estimation of actual worth in the business in the event of loan default and liquidation of the borrower. Bankers Adjusted Owners Equity = Total Assets – Total Liabilities – Intangible Assets – Reduction to Realisable Value.

**Parastatal** - owned or controlled wholly or partly by the government (a parastatal electricity supply company, for example).

**Partner** - Any individual with authority to bind the firm with respect to the performance of an engagement

**Partnership** –

1. Generally, a relationship of two or more entities conducting business for mutual benefit.

2. A form of unincorporated business organization. Each partner is jointly and severally responsible for the debts of the partnership. This form of doing business predates the incorporation concept of limited liability. For example, two brothers start a business together. They do not form a close corporation or a private limited company. They are partners.

3. A form of incorporated business in South Africa known as a section 53(b) company with specific provisions allowing certain professions where professional skill and judgment as the basic service – such as law, engineering and accounting – to be incorporated.

**Par value** - 1. The face value printed on a share or security as distinct from its market value.

2. It can also be used to describe the recognized value of one currency compared to another. Payee - A person receiving payment through any form of money transfer method, such as a cheque. Copyright © 2004, Campbell R. Harvey. All Rights Reserved. PAYE - Abbreviation for Pay As You Earn. Tax applied to the taxable employment income of employees, deducted monthly by their employers and paid over to SARS.

**PAYE** - Pay As You Earn; a rate of tax deducted from the salary/wages of any person who earns more than R60 000 per annum.



**Person** - A person includes a sole proprietor, partnership, close corporation, company, associations not for gain, the estate of any deceased or insolvent person and any trust fund.

**Personnel** - Partners and staff

**Petty Cash** - A small cash fund kept on a firm's premises for the payment of minor incidental expenses.

**Collins English Dictionary** – Complete and Unabridged © HarperCollins Publishers 1991, 1994, 1998, 2000, 2003

**Petty Cash Book (Journal)** - In almost all businesses, it is found necessary to keep small sums of ready money with the cashier or petty cashier for the purpose of meeting small expenses such as postage, basic supplies, stationery and office supplies etc. The sum of money on hand is generally termed 'petty cash' and the journal or book in which the petty cash expenditures are recorded is termed the 'petty cash book'. [The word

'petty' means 'of lesser importance']

**PIN** - Abbreviation for Personal Identification Number.

**Plc** - Abbreviation for public limited company.

**Plus VAT** - This means that the VAT still has to be added. It is the same as saying the price is 'Exclusive of VAT'. It is better to use the term "VAT Excluded" than to say 'Plus VAT' because 'Plus VAT' can be confusing. See 'Exclusive of VAT' in this glossary.

**Portlet** - Integrative component embedded into a portal page, delivering information from other business systems

**Post-dated cheque** - A cheque that has been signed but dated for payment at a later date. For example, Joe Smith needs ten bags of cement. He has a good relationship with his local building materials supplier. They agree he can take the cement and write a cheque dated for next Monday. Joe Smith is confident there will be money in his account then to cover the cheque. The supplier agrees to lodge the cheque with his bank next week.

**Posting** - the activity of recording business transactions. An entry or the action of creating an entry into the books of a business.

**Power of attorney** - 1. A written document authorizing one person to act for and on behalf of the other in specified legal or financial matters.

**Practice sale** - The sale of the entire practice to a new purchaser

**Practitioner** - A professional accountant

**Profession** - A profession is an occupation that typically requires a bachelor's degree from a university, and in most cases a period of postgraduate study. Professions are normally self-regulating, with members adhering to a code of ethics and discipline

**Professional accountant** - An individual who has met the academic, professional and practical experience criteria established by a recognised professional accounting body for the awarding of that body's professional credential. Further, this person continues to meet all the criteria for remaining a member in good standing in that body.

**Professional conduct** - Professional conduct is anchored in ethics, the explicit reflection on moral beliefs and practices. All professionals are guided by codes of conduct embodying the ethical principles that govern their performance and behaviour

**Professional services** - Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services

**Professional standards** - IAASB engagement standards, as defined in the IAASB's "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services," and relevant ethical requirements, which ordinarily comprise Parts A and B of the Code of Ethics for Professional Accountants issued by IESBA, and relevant national ethical requirements.

**Progressive sell down** - The practitioner progressively sells off percentages of their equity in their firm over time

**Preference shares** - Also known as preferred shares. These are shares issued by a company to raise additional capital finance. They are an equity method of raising long term finance at a lower cost and with some significant advantages over increasing a company's bank or institutional interest based borrowing. They are regarded as an intermediate step between ordinary shares and debt. The holder of preference shares is promised a fixed dividend on preference shares for a stipulated or infinite period. They are "preferred" because they receive preference in the payment of dividends and in any liquidation over ordinary shares. Preference shares normally do not have voting rights at AGMs.

The advantage to a company issuing preference shares is their payment comes from dividend declaration. If no dividend is declared, there is no payment to the preference shareholder.

**Preferred creditor** - Also known as a preferential creditor. A creditor who has obtained the right to be paid before others in the event of a business being declared insolvent. (Source: Longmans Business English Dictionary, new edition)

**Prepayment** - 1. A payment made or received in advance for receipt of goods or services. These are recorded as current assets (in the case of a prepaid expense) or as current liabilities (in the case of a payment received in advance of product or service delivery) in a company's accounts.

2. A payment of a capital amount of a loan prior to it being due. For example, if a person pays back the capital amount of their mortgage early, this would be a prepayment.

**Pre-sales** - A term used in speculative residential and commercial development. It is where a buyer offers to make a purchase „off plan" – from the drawings or plan of the estate and the unit. The degree of pre-sales must be 60% or higher to attract bank financing of a speculative development. From a bank lending perspective, a pre-sale is one where a deposit has been made by a prospective customer, this deposit is being held in a fiduciary fund and there is proof of a mortgage loan approval for this proposed purchase.

**Pre-trade costs** - Costs such as advertising and marketing promotion, insurance, accounting and legal fees, rent, telephone, licenses and permits, market research and feasibility studies. This excludes capital costs, such as the purchase of buildings and motor vehicles.

**Price to earnings ratio** - Abbreviation P/E ratio. A ratio of the market share price to the earnings (net profit) per share. Price to Earnings ratio = Market Price per Ordinary Share / Earnings per Share. It is a measure of the price paid for a share relative to the annual net income or profit earned by a company per share. It is a financial ratio used for market valuation purposes. A high P/E ratio means that investors are paying more for each unit of net profit, so the stock is more expensive compared to one with lower P/E ratio. P/E ratios are a way of assessing how the stock market is ranking and comparing the earnings of companies and investors willingness to pay for this earnings potential. Earnings are net profit. This measure has nothing to do with dividends. The declaration of a dividend is a separate process and not directly

related to P/E ratios. See dividend, dividend policy, dividend pay out ratio and dividend yield.

**Prime lending rate** - Another term for prime rate.

**Prime rate** - The interest rate charged by commercial banks to their most creditworthy customers (usually the most prominent and stable business customers). The rate is almost always the same or very similar amongst major banks. The prime rates tend to follow changes in the underlying bank rate or repo rate set by the Central or Reserve Bank.

**Principal** - 1. The capital amount of a loan.

2. The amount originally invested in a security or other investment.

3. The amount the issuer of security will pay the holder when the security matures. Sometimes it is also called the face value, par value or redemption value.

4. The person on whose behalf an agent or broker is acting. The derivation of the word “principal” is from a Latin word, princeps, meaning first, original or chief.

**Private limited company** - A company whose shares cannot be offered to the public for purchase and whose owners (no more than 50 shareholders) benefit from limited liability. Also known as a proprietary limited company.

**Proceeds** - 1. Profit or return derived from a commercial transaction or investment.

2. The result, especially the revenue or total sum, accruing (being gained from) from some undertaking or course of action, as in commerce  
Collins English Dictionary – Complete and Unabridged © HarperCollins Publishers 1991, 1994, 1998, 2000, 2003

**Professional clearance letter** - A client may wish to change from one accountant to another. When this happens, the incoming accountant has a professional obligation to ascertain whether there are any professional reasons why the new appointment should not be accepted and this necessitates direct communication with the existing accountant. This is done by writing a professional clearance letter requesting clearance to go ahead and to then receive all files and documents that allow you to service your new client.

**Profit** - Money gained from the sale of goods or services after the costs are deducted.

**Profit after tax** - Another term for net profit. See net profit.

**Profit margin** - As a general concept, the percentage of the selling price

of a good or service that is in addition to the total cost of producing and delivering the good or service. Profit margin = Selling Price x 100% / Total Cost

As a general concept, a profit margin can be applied to a wide range of circumstances. The profit margin ratios generally used in financial analysis are, gross profit margin, operating profit margin, net profit margin as well as return on total assets and return on equity. See profit ratios.

**Profit ratios** - In financial and ratio analysis, there are three ratios used in assessing profit margin. These are gross profit margin, operating profit margin and net profit margin as well as return on total assets and return on equity. These, in sequence, give you an insight into how the basic potential profit of a company is absorbed by the business itself at each stage of the business process. The gross profit margin gives you the basic production cost of a company. The gross profit margin gets eroded by the operating expenses to give the operating profit margin. The operating profit margin is eroded by the interest charges, capital repayments and taxes. The net profit margin is a summation of the percentage of profit remaining. The return on total assets gives you an overall efficiency measure and the return on equity relates this to the owners or shareholders equity. This sequence of profit margin ratios allows you to see the efficiencies and inefficiencies of a company in its passage from gross profit, to operating profit and finally to net profit and then the return ratios. Profit margin ratios are useful when comparing companies in similar industries. Higher profit margin ratios indicate more profitable companies that have better control over costs compared to their competitors.

**Promissory note** - A signed document containing a written promise to pay a stated amount to a specified person or the bearer at a specified date or on demand. (Source: Oxford Concise English Dictionary, revised 10th edition) Many documents acknowledging debt are promissory notes. A bank note is a promissory note. The promissory note format is used by money and capital market issuers to create negotiable securities that are accepted by investors. Commercial paper is an example of a promissory note used in the money markets. Depending on the specifics of each case, a promissory note can be negotiable, nonnegotiable or a bearer document.

**Property, plant & equipment** - The assets of a company used in the generation of profit. It includes land, buildings, vehicles, machinery and

other assets used in the main operational activity of a company and with a useful economic life of longer than one year. It is recorded in the non-current asset section of the balance sheet.

**Proprietary** - 1. Relating to or characteristic of an owner or ownership.

2. A product marketed under a registered trade name.

**Proprietary limited company** - Another term for private limited company. The ownership is limited to a certain number of owners and is not open to everyone.

**Proprietor** - 1. The owner of a business.

2. The holder of property.

2. The authority granted by a written document. **Provision** - Provision means a charge against profit for future contingencies (A possibility that must be prepared for). A provision is made in the accounting records for the estimated "known" liability. For example, you can provide for a future tax bill or for bad debts that you predict will occur.

**Provisional Tax** - A person must register as a provisional taxpayer if he derives income which is not a salary or wages (such as profits from a business), is director of a private company or is a member of a close corporation. Provisional tax is usually paid twice per financial year.

**Pty Ltd** - Abbreviation for proprietary limited company

**Public entity** - An entity whose securities are publicly traded, either on a stock exchange or on the over-the-counter market.

**Public limited company** - A company whose shares can be offered for purchase to the public, whose shares are quoted on a stock exchange and whose owners (the shareholders) benefit from limited liability.

**Purchase journal** - The Purchases Journal is a record of all purchases for the month, in date order, with the supplier's name and rand value of each purchase.

**Purchases** - Goods bought from suppliers.

**Purchasing power** - The amount of goods and services that can be bought for a given amount of money. This can be comparative – showing how much, for example, a Big Mac costs in various countries. Or it can be measured over time. For example, how much you could buy for R1, 000 in 1970 and for R1, 000 in 2010. Purchasing power is a method of quantifying the effect of inflation and of comparing the costs of living in various countries. Currency devaluations against other

currencies and inflation are the two primary factors in eroding purchasing power. Another factor is the rising cost of increasingly scarce basic resources inherent in most production processes, such as oil.

**Qualified report** (by auditors of a company) - If an auditing firm conducts an audit of the financial status of a company and finds no problems and a 'clean bill of health', the auditor's report is termed an unqualified report. If they find issues that require further attention or that may reflect further problems, the report notes these issues and the report is therefore termed 'a qualified report'. For example, if expenditure was found not backed-up by proper documentation this may result in a note in the report and a consequent 'qualified report'.

**Quantity surveyor** - A professional who calculates the amount and cost of materials needed in construction work. A bank will require a quantity surveyor's report as a condition of any construction or property development loans. Their regular reports during the construction phase will also

be used to monitor actual costs to budgeted costs and to authorize payments for release to a contractor.

**Quick Ratio** - Another term for acid test ratio. See acid test ratio.

**Quoted company** - A company whose ordinary shares are quoted on a stock exchange.

**Rand** - The rand is the currency of South Africa. Its symbol is R. It is written as a normal word without capitals but the symbol is a capital R. It is written as rand. It takes its name from the Witwatersrand (White-waters-ridge in English), the ridge (rand in Afrikaans) upon which Johannesburg is built and where most of South Africa's gold deposits were originally found. The rand is subdivided into 100 cents, symbol "c". The code for the rand used as an international standard is ZAR. This is used internationally when referring to the South African rand, for example when listing currency exchanges. The ZAR code comes from the Dutch words 'Zuid-Afrikaanse rand'. (South African Rand). This is also

the source of the South African internet name ".za" from the Dutch 'Zuid Afrika', meaning "South Africa". **Rate of inflation** - The increase in inflation usually measured as an annual percentage. The normally reported rate of inflation is the rate of increase in the Consumer Price Index. However, other more specific rates of inflation – for example construction cost inflation – are also compiled and used within industry.

**Rate of Return** - The profit an asset provides quoted as a percentage of the purchase price of the asset. The basic rate of return is arrived at by using the following formula:

$$\text{Return} = (\text{Profit/Purchase Price}) \times 100$$

For example, you invest R120, 000. You receive R20, 000 profit plus your capital amount is returned, the rate of return would be as follows:

$$\text{Return} = (\text{R20, 000/R120, 000}) \times 100 = 16\%$$

The rate of return is very important in assessing the relative merits of various investments. When a rate of return is quoted, it is important to know exactly how it has been calculated and how does it compare to other quoted rates. There is pre-tax, after tax, annualized rates, with fees included or excluded, and a variety of other options on how to present the rate of return. The industry standard aimed at allowing some degree of transparency and comparability for investors (and debtors) is the Annual Percentage Rate – known as the APR – and the Annual Percentage.

**Yield** – known as APY. APR is the annual rate of return earned on an investment over a year without any compounding. Let's say you put R10, 000 in an investment account with a 5% APR. No interest is compounded back into the investment account. The bank pays the interest

directly into your current account. Over the course of a year, the account would pay interest of R500. APY is the annual rate of return earned on an investment over a year with compounding. Let's say the 5% APR is compounded monthly and not removed from the investment account. At the end of the year, your account would have R10, 511.62 in it. Your APY would be 5.1162% compared the APR measurement of 5%. The difference between these two ways of presenting the rate of return can be important where credit card debt, installment debt and other forms of debt are not paid off monthly by consumers and the compounding of debt begins to have an effect.

**Ratio** - A relationship between two quantities, normally expressed as the quotient (the number that results from the division of one number by another) of one divided by the other. For example, if a box contains six red marbles and four blue marbles, the ratio of red marbles to blue marbles is 6 to 4, also written 6:4. A ratio can also be expressed as a decimal or percentage. The American Heritage® Science Dictionary Copyright © 2005 by Houghton Mifflin Company. Published by Houghton Mifflin Company All rights reserved.



**Ratio analysis** - The study of financial ratios derived from the Annual Financial Statements of a company. The ratios analysed cover profitability, liquidity & solvency, inventory & related turnover and market value. Creditors (and investors who buy debt securities, such as corporate bonds) are interested in liquidity and solvency – the company's short and long term ability to service its debts. Investors who buy ordinary shares are primarily interested in a company's profitability, market value and the prospects for earning a return on their investment by receiving dividends and/or increasing the market value of their stock holdings. Financial analysts, who frequently specialize in following certain industries, routinely assess the profitability, liquidity, solvency and market value of companies in order to make recommendations about the purchase or sale of securities, such as shares.

**Realisable value** - The highest expected price of a sellable item. The net realizable value is the releasable value less the cost of bringing it to the point of sale. You may need to deduct the cost of repairs, delivery and so on). For example, a house is worth R2 million – its realisable value. But the agent fees, transfer costs and any outstanding mortgage payments then need to be deducted to arrive at its net realisable value.

**Rebate** - An amount deducted from a taken off the tax after your tax rate has been worked out. There are rebates for various kinds of businesses, types of taxes, business activities and so on. It's important to find out if your business qualifies for any rebates, as this can decrease the amount of tax you have to pay to the Receiver.

**Receipts** - Receipts are documentary proof that an amount of money has been received by the business. Also, a written acknowledgment by a receiver of money, goods, etc., that payment or delivery has been made.

**Reconciliation** - The word reconcile means to make (two apparently conflicting things) compatible or consistent with each other. It comes from the Latin word, 'conciliare', to make friendly. Reconciliation involves identifying the differences, if any, that exist between two separate independent records or documents that should be the same. The purpose of reconciliation is to correct errors where they exist. Reconciliation can be done on bank statements, debtors and creditors accounts, for example. This term, reconciliation, is often referred to as 'recon'. Bank reconciliation is the process of comparing the bank's records of the company's transactions to the company's own records of the same transactions. Reconciliation helps avoid, or at least remedy, such problems as fraud and bank errors. One can take an account such as

a creditor that you use to purchase supplies, and before paying that supplier's next invoice, you can perform a reconciliation of that creditors account to be sure your information of payments made so far, is accurate. Likewise, a debtors account can be reconciled.

**Recovery rates** - The rate at which an individual is allowed to charge the client per hour, for work done for a client.

**Redemption value** - The value of a security or investment when it is cashed in. For example, an endowment policy may have a redemption value.

**Refer to drawer** - A phrase used by banks when there are insufficient funds in an account to meet the payment of a cheque drawn on that account. The cheque is being referred to the account holder – the drawer.

**Registrar of Financial Service Providers** - The Financial Services Board is the appointed registrar for FSPs in terms of the Financial Advisory and Intermediary Services Act, 2002.

**Remit** - 1. Refrain from calling on a debt.

2. Send money in payment. (Source: Concise Oxford English Dictionary Revised 10th Edition)

**Remittance** - 1. The sending of money to someone at a distance. 2. The sum of money sent. It comes from the English word 'remit' meaning to send money. The word in turn comes from the Latin word meaning to send.

**Rent** - 1. Payment, usually of an amount fixed by contract, made by a tenant at specified intervals in return for the right to occupy or use the property of another.

2. A similar payment made for the use of a facility, equipment, or service provided by another (for example, you can rent a car for a few days, or a telephone for a period or a smart suit for a day).

**Remuneration** - Money paid to an employee, including a salary or wages, leave pay, travel allowances, overtime pay, bonuses, gratuities, commissions, pensions, annuities, any amounts paid for services rendered or variation of office, retirement lump sums and any fringe benefits.

**Repo rate** - Also known as the bank rate. See bank rate. The “repo” rate is short for repurchase agreement rate. A Reserve Bank agrees to lend a commercial bank an amount based on the commercial bank depositing securities with the Reserve Bank. These securities are discounted – reduced in price below their market value – by the Reserve Bank. This

motivates the borrowing bank to repurchase these securities at a later date left as security – hence the name repurchase agreement or repo rate.

**Representation letter** - Written confirmation from management to the auditor or professional accountant about the fairness of various financial statement elements. The purpose of the letter is to emphasize that the financial statements are management's representations, and thus management has the primary responsibility for their accuracy.

**Reserve Bank** - The monetary authority and major regulatory bank in a country. Its functions include issuing the currency of a country, influencing money supply and supervising money market operations, managing foreign currency and gold reserves, acting as a bank of last resort to commercial banks and acting as the bank to its government. With only two exceptions world wide (the Federal Reserve and the South African Reserve Bank), Reserve Banks are state owned and controlled but with guarantees of independence to manage within stated public policy on monetary and inflationary targets.

**Reserve currency** - Major international currencies, such as the US dollar, Euro and the Yen that are held Reserve Banks to support public confidence in the value of a country's local currency. The reserves will not match the local currency value in circulation but needs to be sufficient to bolster confidence in the local Reserve Bank and its local currency. For example, the value of the gross gold and other foreign reserves of the SARB were equivalent to US\$ 39,7 billion at the end of December 2009.

**Residual value** - This is remaining value of an asset after it has been fully depreciated. For example, an asset has been depreciated for 5 years and now has a book value of zero. At a time after this 5 year period, the asset may still have some value. This is the residual value.

**Residential bond** - A mortgage loan offered on a residential property. Residential mortgages tend to be up to twenty year terms in South Africa,

**Retained income** - After tax profit that has been made and then kept by a company for its development. It has not been distributed to the owners or shareholders.

**Retention** - Monies held back by a construction client to ensure a contractor complete sa list of items requiring attention (snags), reported to the contractor during the first three months after completion of a construction project.

**Retirement annuity** - A form of insurance or investment which pays a

fixed sum of money paid to someone annually after retirement and typically for the rest of their life. A person saves for their retirement. These monies are tax efficient savings. When they retire, these funds can then use these funds to purchase a retirement annuity from an insurance company. Sometimes a lump sum can also be released from these savings.

**Return** - The profit or revenue on a transaction or activity.

**Return on Assets** - A ratio of net profit divided by total assets and expressed as a percentage  $\text{Return on Assets} = \text{Net profit} \times 100\% / \text{Total assets}$ . This measures the effectiveness of a company or a management team in using its total asset base at book value to generate a profit. Comparisons in the same industry and similar companies help give investors a ranking of efficiency.

**Return on Equity** - A ratio of net income to owner's equity and expressed as a percentage.  $\text{Return on Equity} = \text{Net Income} \times 100\% / \text{Owners Equity}$ . It measures the percentage of profit a company has been able to generate from the resources provided by its owners or shareholders. Return on equity and return on assets are two measures of the profitability of a company based on its equity base and asset base. They complement the other profit ratios – net profit margin, gross profit margin and operating profit margin.

**Revenue** - Incoming funds from trading activities or the supply of services to clients. Also, income can refer to all invoiced goods and services but possibly not yet received as revenue or money.

**Ring-fence** - 1. to assign (money, a grant, fund, etc.) to one particular purpose, so as to restrict its use (to ring-fence a financial allowance). 2. to oblige (a person or organization) to use money for a particular purpose (to ring-fence a local authority) Risk management - The systematic identification and reduction of risk related to a company's activities that aims to reduce potential financial and other losses.

**SAFEX** - Abbreviation for South African Futures Exchange, a division of the JSE.

**SAICA** - The South African Institute of Chartered Accountants.

[www.saica.co.za](http://www.saica.co.za). SAICA is a professional body in the accountancy profession in SA and controls the designation, CA (SA), that used by Chartered Accountants, in South Africa.

**SAIPA** - The South African Institute of Professional Accountants.

[www.saipa.co.za](http://www.saipa.co.za). SAIPA is a professional accountancy body in SA. Qualified SAIPA members are known as Professional Accountants.

**Salary/Salaries** - Set sums of money paid at regular intervals to employees who render their time and services to the business for its profit. A regular compensation that an employee receives for working at a company. A salary is set by agreement between the employee and the employer and is not dependent on the number of hours worked. That is, the employee does not make more for working more than the standard number of hours per week and does not make less for working less than that. Overtime or commissions, when they apply, are paid over and above the salary amount. A salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with wages, where workers are paid per hour or per week or per job, rather than a steady amount paid each month as in salaries.

**Sales journal** - The Sales journal is a record of all sales made by the business during the month. The Sales journal will differentiate between cash and credit sales; it will identify the VAT portion of sales and will split sales into various sales categories. It is a book of first entry for sales invoices issued to customers for goods supplied or services rendered. Entries from this journal are posted to individual customer accounts, their totals are posted to the ledger as a debit to accounts receivable and as a credit to sales. Separate columns may exist to classify sales by category (e.g., product line).

**Sales tax** - A tax levied in sales. In South Africa, this is VAT.

**SARB** - Abbreviation for South African Reserve Bank.

**SARS** - Abbreviation for South African Revenue Service.

**SDL** - Abbreviation for Skills Development Levy. A deduction of 1% of most salaries is collected by employers and transferred to SARS who then pays it into the National Skills Fund administered by the Dept of Labour. These funds can then be claimed back, in certain circumstances, by companies training staff or used to support industry training via the Sectoral Education and Training Authorities. Second-hand goods - Second-hand goods are goods (including fixed property) that have been previously owned and used. The term excludes animals, gold coins and certain “old order” mining rights.

**Section 53(b) Company** - Certain professional persons, such as attorneys and accountants, are statutorily prevented from forming private limited companies. A special form of company, known as a section 53(b) company, is created for these businesses. The Directors in their personal capacity and the company are jointly and severally liable for all

debts and liabilities of the company incurred during their term of office. These companies are identified by the word "Incorporated" or "Inc." after the name of the company.

**Section 21 Association** - A not-for-profit form of company used by many charities, religious, educational and other social related groups. It is a Section 21 company because it is registered in terms of section 21 of the Companies Act. The company may not pursue profit and the Memorandum of Association must contain a clause that at the dissolution of the company, all remaining assets of the company must be transferred to another concern with a similar objective. No dividends, bonuses or other payments may be paid to its members except for the reasonable remuneration in good faith to its employees.

**Security** - 1. A signed legal document that gives the bank access to specific assets of the client. In the event of default by the client, the bank can arrange for the sale of these assets to recoup any losses the bank may have incurred. See 'collateral' in glossary.

2. The asset on which the above signed legal document is based.

3. A generic term for tradable investments that confer a right to interest income, dividend payments, ownership or other benefits arising from equity shares, bonds, options, warrants and other debt instruments.

**Sequester** - To take, by court order, property, goods or other assets away from someone who has not paid their debts or has broken some other law. **Services** -

- The term “services” is very broad. It includes the following:
  - The granting, assignment, cession, surrender of any right;
  - The making available of any facility or advantage; and
  - Certain acts which are deemed to be services in terms of section 8.
- The term excludes:
- A supply of “goods” ;
  - Money; and
  - Any stamp, form or card which falls into the definition of “goods”.
  - Examples: Commercial services: electricians, plumbers, builders. Professional services: doctors, accountants, lawyers, advertising agencies. Intellectual property rights: patents,
  - trademarks, copyrights, know-how, restraint of trade. In addition, any cover under an insurance contract is a service.

**Seta** - Sector Education and Training Authority. In terms of the Skills Development Act, Setas have been created to cover all sectors in South Africa, including government. The members of a Seta include

employers, trade unions, professional bodies, government departments and bargaining councils, where relevant, from each industrial sector. There are Setas for Retail and Wholesale, Agriculture, Banking, Insurance, Manufacturing and so on throughout the economy. There are 23 Setas at present. The Setas have the job of planning and implementing strategies that develop skills in their respective sectors.

**Several liability** - Liability that is separate, individual and not linked. For example, a group of banks agree to lend a large corporation R500 million. The syndicated loan contract will be drafted on a several liability basis. Each bank is responsible to the client only for their portion of the loan and not the total or for any failure of the other banks to honour their agreement. The derivation of several is the Latin word “separ” meaning separate, different.

**Share** - Also known as stock, it is a unit of ownership of a company. They carry rights to the receipt of dividends when these are declared by the Board of Directors of the company. There are two main categories of shares: ordinary shares and preference shares.

**Share block company** - A company established in terms of the Share Blocks Control Act, 1980. Prior to the inception of the sectional title form of development, developers went the share block route. A share block company was registered as the owner of the land and buildings, and each flat was allocated a number of shares (known as a "share block") in the company which entitled the owner to the exclusive use and occupation of the flat. There are still many Share Block flats in the Durban and coastal region. This form of company has been largely superseded by the sectional title form of development. For all intents and purposes, the setting up of new share block developments is a thing of the past. The main issues are now converting an existing share block scheme into sectional title and the pros & cons of purchasing into an existing share block scheme. (Source: Sectional Title versus Share Block, Meumann White Attorneys, 20th Nov 2008)

**Share capital** - The face value of a share (that amount printed on the original share certificate) multiplied by the total number of shares issued.

There are various types of share capital. The first is the authorized share capital. This represents the amount of shares and their face value authorized for issue in the articles of association of the company. Not all authorized share capital needs to be issued. Or it can be issued in stages and in different ways such as employee incentives and so on. Second,

there is the issued or subscribed share capital. This is the amount of shares actually issued for sale and purchased. Where the full face value price has been paid for a share on issue, this is then called fully paid share capital. If there has been partial payment or phased payment of the face value, the amount actually paid to date is the called-up share capital.

**Share certificate** - A document or an electronic record that provides evidence of shares in a company. It states the number of shares purchased, the face value of the shares, the type of shares (ordinary or preference) and the serial numbers of the shares. A share certificate is not negotiable – it must be traded on a registered stock exchange and the change in ownership recorded there. An increasing number of stock exchanges world wide have moved from paper share certificates to an electronic record of a share. On these exchanges, paper share certificate now need to be converted to electronic shares before they can be traded on these exchanges.

**Shareholder** - Also known as an equity holder. The holder of a share in a company that grants part ownership of the company. Shareholders capital - Another term for shareholders equity and owners' equity. See owners' equity.

**Shareholders equity** - Another term for shareholders capital and owners' equity. See owners' equity.

**Shareholding** - A quantity of shares in a company owned by one person or a company. Shell corporation

1. Formed as a front for an illegal business.
2. Non-trading company formed as a vehicle to raise funds before starting operations, attempting a takeover, or moving towards listing on a stock exchange.

**Short-term insurance** - Insurance providing coverage of a risk for one year or less. For example, a house hold insurance policy is short and is renewed annually. Life insurance is long term because a policy is taken out on a risk over a longer time period.

**Simple interest** - The interest earned on a loan or a deposit where there is no compounding of interest. The formula for such interest is:  $\text{Interest} = \text{Capital Amount} \times \text{Interest rate} \times \text{Number of Days}/365 \text{ days per annum}$  For example, the simple interest earned on R100, 000 in thirty days at 6.5% would be:  $\text{Interest} = \text{R}100,000 \times 0.065 \times 30 \text{ days}/365 = \text{R}534.25$



**SITE** - Standard Income Tax on Employees is deducted by the employer from an employee's salary (usually at the end of every month). All employees are liable for this tax. Where an employee's net remuneration is R60 000 or less, PAYE does not have to be deducted.

**Small agreement** - A term defined in the National Credit Act as a credit agreement with a capital amount of R15, 000 or less.

**Sole proprietor** - Also known as a sole trader, it is the simplest form of a business entity. A person starts trading and there is no legal distinction between this natural person and his business. All profits and all losses, after taxation, accrue to the owner. All assets of the business are owned by the proprietor and all debts of the business are their personal debts and they must pay them from their personal resources. The owner has unlimited liability. A sole proprietor may use a trade name – for example Jens Smut Trading As “Instant Plumbing Solutions” – and open a business bank account in this trading name. It is a "sole" proprietorship in the sense that the owner has no partners – he is the sole owner or trader.

**Standards** - (See Accounting standards)

**Standard rate** (of VAT) - In South Africa VAT is charged at 14% of the sales value of the item. VAT at 14% is added to the price to give a total price including VAT. At the moment 14% is the VAT rate charged and is known as the standard rate. Some items are zero-rated, meaning no VAT is charged, for example on some essential food.. Statistics South Africa - The official collector and publisher of government statistics in South Africa.

**Statutory** - A statute is a law. Statutory means having to do with a statute or law. If a form to be submitted each month is a statutory form, it means there is law that says this is what must be done.

**STC** - Secondary Tax on Companies (phased out and replaced with Dividends Tax - see definition of Dividends Tax).

**STI**: - Sexually Transmitted Infection

**Stock broking firm** - A company which acts as an agent for their clients to buy and sell listed securities on a stock exchange. They also offer investment advice to their clients. They earn a commission based on their purchase and sale of stock for clients. A stock broking firm needs to be a member of a stock exchange.

**Stock certificate** (Inventory certificate) - Certificate signed by client indicating the stock figure as at a date. A written and signed document attesting to the inventory a business or organization has on hand.

**Stock exchange** - 1. A market in which securities are bought and sold.  
2. The organization that creates the market place for securities. For example, the JSE is both a market place and an organization which creates this market place. As an organization, an exchange creates a market place for buyers, sellers and brokers. And it seeks to maintain volumes of trading to ensure liquidity for both buyers and sellers. And its own income is generated by the volume and value of trading on its electronic systems and through its clearing facilities. In an exchange, the products purchased and sold are standardised contracts with set specifications regarding content, size, expiry dates, tick movement and so on.

**Stock market** - Another term for stock exchange.

**Stokvel** - A rotating savings and credit association, in South Africa, in which members contribute regularly. A stokvel is a 'voluntary group' of people, or club, where individual members choose to belong. The group is formed on the basis of trust between members, friendship and a strong sense of mutual responsibility. The members of the stokvel group agree upon the group's purpose, its rules and its outcomes. There are various categories of stockvels – such as savings clubs, burial societies, investment syndicates and insurance clubs.

**Taxable income** - The amount you will be taxed on once exempt income and allowable deductions have been deducted from your gross income.

**Tax invoice** - The tax referred to here is VAT. A Tax Invoice must specify certain information and is given to us by the supplier from whom we have purchased goods. The words „Tax Invoice” must appear prominently on this invoice. A company registered as a VAT vendor will invoice clients for services and charge VAT as a component of the invoice totals. In this company's books this is 'Output tax'. The purchases made by this company will include a portion of VAT on the suppliers invoice. This is 'Input tax'. SARS allows this company to claim input tax payments but to do so the company must receive 'Tax Invoices' from its suppliers who are registered for VAT. This invoice (supplier's bill) has to be presented following the rules of what a Tax Invoice must consist of. For example:

- The words “TAX INVOICE” in a prominent place
- Name, address and VAT registration number of the supplier
- Name, address and where the recipient is a vendor the recipient's VAT registration number

- Serial number and date of issue
- Accurate description of goods and/or services (indicating where applicable that the goods are second-hand goods);
- Quantity or volume of goods or services supplied Price & VAT

**Telegraphic transfer** - Also known as a telex transfer. An electronic means of transferring money overseas. A transfer fee is levied for this service.

**Terms and conditions** - The stipulated and agreed contractual provisions written into an agreement for payment, contractual breach, liability, dispute resolution, legal recourse, collection of debt, exclusions and foreseeable special circumstances.

**Terms of trade** - 1. The conditions under which companies agree to buy from and sell to each other. These will appear in any contractual agreement entered into between two companies.

2. The conditions under which countries agree to buy from and sell to each other. These are contained in international trade agreements and in the export and import regulations of a country. (Source: Longman Business English Dictionary)

**Testamentary** - Relating to a will. The word is derived from the Latin “testatus” meaning testified, witnessed.

**Timesheets** - (Time sheet) These were originally developed for an employer to determine payroll but timesheets are not just for payroll any more. Timesheets may record the start and end time of tasks, or just the duration. It may contain a detailed breakdown of tasks accomplished throughout the project or program. This information may be used for payroll, client billing, and increasingly for project costing, estimation, tracking and management.

**Title** - When used in a legal sense, it means a right or claim to ownership of property.

**Title deed** - A legal document registered with the Deeds Office constituting evidence of legal ownership of land and property.

**Transaction** - 1. An agreement between a buyer and a seller to exchange an asset for payment. 2. In accounting, any event or condition recorded in the various books of accounts.

**Treasury bill** - A short dated (twelve months or less), negotiable government debt security yielding no interest. On issue, they are purchased by investors at below face value. On maturity, the holder of the security receives the face value of the security from the issuing government. A Treasury bill is used by Reserve or Central Banks to

meet short term government borrowing requirements and to influence the money supply. By selling them, the Reserve Bank, reduces the level of money in circulation. By repurchasing them, they increase the money in circulation.

**Treasury Dept** - In a commercial bank, the primary functions of a treasury dept is to manage the bank's asset and liabilities so that it remains within the capital adequacy ratios set by the Reserve Bank. It is also responsible for the money market operations of the bank, setting investment rates for depositors and sourcing insurance for the bank's own, for example, property, director and credit risks.

3. The net current assets of a company recorded in its balance sheet.

**Yield** - 1. The income generated per annum by an asset expressed as a percentage of the assets purchase price or market price. 2. For bonds and money market instruments, the coupon rate divided by the market price. A coupon is the stated interest payment per annum on a bond. The coupon rate is the stated interest rate divided by the face value of the bond. 
$$\text{Coupon rate} = \frac{\text{Annual Interest Rate}}{\text{Face Value of Bond}}$$
 
$$\text{Bond Yield} = \frac{\text{Coupon Rate}}{\text{Market Price of Bond}}$$
 3. For shares and other securities, the annual dividends divided by the purchase price. A yield may not reflect the full return of an investment asset as it does not factor in any increased capital value in the underlying asset.

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## CONTENT

Introduction.....	3
1. Economic content of taxes and their necessity.....	4
2. Income tax (expense) legal entities.....	16
3. Simplified taxation system for micro and small enterprises.....	25
4. Income tax for individuals.....	32
5. Value added tax.....	39
6. Excise tax.....	57
7. Property tax.....	71
8. Land tax. Lubsurface use tax.....	82
9. Tax for the use of water resources.....	103
Glossary.....	108
References.....	157

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