

Branches and representative offices are a part of a foreign legal entity and accordingly are recognized as non-residents in Kazakhstan.

#### TAX ENVIRONMENT

A number of taxes are charged in Kazakhstan, and in this article we concentrate on three of the main types foreign investors will come up against during their operations.

#### CORPORATE INCOME TAX (CIT)

Residents' aggregate annual income (AAI) includes both income received in Kazakhstan and income received outside of Kazakhstan, for example the company's global income. Non-residents' income (branch income) includes only income from sources in Kazakhstan. Only expenses related to income-generating activities and supported by documentation are deductible. Kazakhstan is a document-oriented country, which is why supporting documentation is a key condition for being entitled to a deduction. The current CIT rate is 20%. CIT is calculated using the following formula:

$$\text{CIT} = (\text{AAI} - \text{Expenses}) \times 20\%$$

Branches, in addition to CIT, also pay branch profit tax (BPT), which is the equivalent of withholding tax on the dividend payable by LLPs. The taxation of dividends is discussed in more detail in the Taxation of Dividends section. The standard BPT rate is 15%, but it may be reduced to 5% or 10% through the application of a double-taxation treaty. BPT is calculated using the following formula:  $\text{BPT} = (\text{Taxable income} - \text{CIT}) \times 15\%$

We can better understand how the income of LLPs and branches is taxed from the example below, where:

$$\text{AAI} = 100$$

$$\text{Expenses} = 80$$

CALCULATION		VALUE
1	$100 - 80 = 20$	Taxable income
2	$20 \times 20\% = 4$	CIT payable to the budget
3	$20 - 4 = 16$	Net income
CALCULATION		VALUE
		LLP
4	$16 \times 15\% = 2.4$	Withholding tax on dividends
		BRANCH
5	$16 - 2.4 = 13.6$	Income after all taxes

The specifics of the taxation of an LLP's dividends and branch net income are reviewed in the Branch vs. LLP section.

#### VALUE-ADDED TAX (VAT)

Taxpayers pay VAT if their turnover exceeds roughly \$300,000 per year.

VAT rates:

- 12% – applied against the sale of goods, work and services, and also the import of goods
- 0% – applied against the sale of goods for export and international transportation

The mechanism for paying VAT is as follows: after purchasing goods, work, or services, a company pays the supplier the cost of the goods, work, or services plus VAT. This VAT is called input VAT. When selling its own goods, work, or services, the LLP should charge VAT on its taxable turnover. This VAT is called output VAT. The difference between output VAT and input VAT is then due for payment.

#### PAYROLL TAXES

When operating in Kazakhstan, foreign investors should consider all taxes applicable to employee salaries. The table below shows the taxes applicable to employees, whether they are Kazakhstan nationals or foreign nationals with permanent residence in Kazakhstan.

TYPE OF TAX	PAYABLE BY	RATE
Individual income tax	The employee	10%
Obligatory pension contributions*	The employee	10%
Social tax	The employer	11%

\*Obligatory pension contributions are made according to an agreed-upon calculation, but should be no more than \$800 per month.

In addition to the above taxes, the following taxes and charges may also apply:

- Vehicles tax
- Land tax
- Property tax
- Gaming tax
- Excise duties
- Export rent tax
- Special payments and subsoil use taxes.

#### SPECIFIC FEATURES: TAXATION OF DIVIDENDS

By having an interest in a company operating in Kazakhstan, a founder/partner is entitled to receive dividends, which are a part of net income distributed among partners. Dividends payable to a non-resident are subject to 15% withholding tax at the source of payment. Kazakhstan domestic law provides LLP founders/partners with an exemption from the taxation of dividends if the following conditions are met simultaneously:

- Shares (interest) have been held for more than three years
- The entity paying the dividends is not a subsoil user

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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