



# Preface

This guide has been prepared by Baker Tilly Bishkek, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in the Kyrgyz Republic.

Baker Tilly International is the world's 8<sup>th</sup> largest network of independent accounting and business advisory firms by combined fee income, and is represented by 154 firms in 133 countries and 27,000 people worldwide. Its members provide high quality accounting, assurance, tax and specialist business advice to privately held businesses and public interest entities.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from [www.bakertillyinternational.com](http://www.bakertillyinternational.com).

Doing Business in the Kyrgyz Republic has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Kyrgyzstan matters can be obtained from Baker Tilly Bishkek, contact details can be found at the end of this guide.

June 2015

# Doing Business in the Kyrgyz Republic





# Contents

<b>1 Fact Sheet</b>	<b>2</b>
<b>2 Business Entities and Accounting</b>	<b>4</b>
2.1 Companies	4
2.2 Partnerships	5
2.3 Branches and Representative Offices	5
2.4 Sole Proprietorship	6
2.5 Audit and Accounting Requirements	6
2.6 Filing Requirements	7
<b>3 Finance and Investment</b>	<b>8</b>
3.1 Exchange Control	8
3.2 Banking and Sources of Finance	8
3.3 Investment Incentives and Restrictions	9
<b>4 Employment Regulations</b>	<b>10</b>
4.1 General Employment Matters	10
4.2 Visas	11
4.3 Trade Unions	11
<b>5 Taxation</b>	<b>12</b>
5.1 Corporate Income Taxes	12
5.2 Personal Taxes	13
5.3 Employment Related Costs and Taxes	13
5.4 Withholding Taxes on Payments Abroad	14
5.5 Value Added Tax (VAT) and Sales Tax	15
5.6 Other Taxes	16
5.7 Tax Incentives for Businesses	17



# 1 Fact Sheet

Facts and figures as presented in sections 1 through 4 are correct as at 4 March 2015.

## Geography

Location:	Central Asia
Area:	199,951km <sup>2</sup>
Land boundaries:	China, Kazakhstan, Tajikistan and Uzbekistan
Coastline:	None
Climate:	Subtropical in the southwest (Fergana Valley); temperate in the northern foothill zone; dry continental to polar in the high Tien Shan Mountains
Terrain:	Tien Shan peaks with associated valleys and basins
Time zone:	GMT +6

## People

Population:	5.72 million (January 2014 estimate)
Religion:	Muslim 75%, Russian Orthodox 20%, other 5%
Language:	Kyrgyz is the state language; Russian is the official language

## Government

Country name:	Kyrgyz Republic
Government type:	Republic
Capital:	Bishkek
Administrative divisions:	Seven provinces and two cities

## Political situation

The unicameral Supreme Council has 120 seats. The Head of State is the President, who is elected by popular vote for a single term of six years. The Head of Government is the Prime Minister, who is nominated by the parliamentary party with more than 50% of the seats. If there is no majority, the President chooses the party that will form a coalition majority and the government.

**Economy**

GDP – per capita:	US\$1,263.5 (2013)
GDP – real growth rate:	10.5% (2013)
Labour force:	2,688,936 (2013)
Unemployment:	2.3% (2013)
Currency (code):	Kyrgyzstani Som (KGS)



## 2 Business Entities and Accounting

### 2.1 Companies

The main company forms in the Kyrgyz Republic are the limited liability company and the joint stock company. Other business forms include additional liability companies, partnerships, sole proprietorships, and branches.

#### 2.1.1 Limited liability companies

A limited liability company may be formed by one or more individuals and/or legal entities. The maximum number of participants is 30. A company with a sole participant may not be a sole participant in a limited liability company. The capital of the company is divided into shares as determined by the company's founding documents. The liability of participants is generally limited to the extent of their contributions.

Limited liability companies may not issue shares.

Limited liability companies are administered by the general meeting of the participants, and are managed by an executive body comprised of one or more managers. An audit committee may be appointed by the general meeting of the participants.

#### 2.1.2 Additional liability companies

An additional liability company may be formed by one or more persons. The capital of the company is divided into shares as determined by the company's founding documents. Participants have joint and several secondary liability for the debts and obligations of the company with their own property in equal multiple proportions to the value of their contributions as determined by the company's founding documents. In other respects, the provisions applicable to limited liability companies generally apply to additional liability companies.

#### 2.1.3 Joint stock companies

A joint stock company may be formed by one or more individuals and/or legal entities. A company with a sole participant may not be a sole participant in a joint stock company. The maximum number of shareholders in a closed joint stock company is 50. There is no upper limit on the number of shareholders in an open joint stock company. The liability of shareholders is generally limited to the value of their shares. An open joint stock company may issue its shares to the public. A closed joint stock company may not issue its shares to the public or offer them for sale to an unlimited range of persons.

Joint stock companies are administered by the general meeting of the shareholders, and are managed by a board of directors and an executive body. A board of directors is not required if there are no more than 50 shareholders. An audit committee must also be appointed. If there are more than three shareholders, an accounting commission with at least three members must be appointed.

#### **2.1.4 Company names and registration**

The company name must indicate its organisational and legal form and may indicate type and nature of its activity.

Companies are subject to state registration and become separate legal entities upon registration.

## **2.2 Partnerships**

### **2.2.1 General partnerships**

A general partnership is defined as a partnership in which the participants (general partners) carry out business activities on behalf of the partnership in accordance with the partnership contract. Partners may be individual business persons and/or commercial organisations. Partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership.

### **2.2.2 Limited partnerships**

A limited partnership is formed by general partners and limited partners. General partners are jointly and severally liable to an unlimited extent for the debts and obligations of the partnership. The liability of limited partners is generally limited to the extent of their contributions. General partners may be individual business persons and/or commercial organisations. Limited partners may be individuals and/or legal entities. Limited partners may not take part in the management of the partnership.

## **2.3 Branches and Representative Offices**

A foreign company may generally conduct business activities in the Kyrgyz Republic through a branch. A branch may conduct the same activities as the parent company, including representation. A branch is not a separate legal entity.

A foreign company may establish a representative office in the Kyrgyz Republic. A representative office may not conduct business activities, but may conduct activities such as representing the parent company and protecting its interests. A representative office is not a separate legal entity.

Branches and representative offices (excluding those established in a free economic zone) are subject to state registration. Certain documentation must be submitted, including:

- Incorporation documents of the foreign legal entity with a notarised translation into Kyrgyz or Russian
- Resolution creating the branch or representative office, and a power of attorney in Kyrgyz or Russian in accordance with legislative requirements, and
- Registration application with an excerpt from the trade register (or other document) certifying that the entity creating the branch or representative office is an existing legal entity under the legislation of the country of its registration.

## 2.4 Sole Proprietorship

An individual may generally conduct business activities in the Kyrgyz Republic as a sole proprietorship. A sole proprietorship is not a separate legal entity, and the owner is liable for the debts and obligations of the business.

A sole proprietorship may undertake business activities under a patent issued by the tax authority. In such cases, state registration is not required. If not operating under a patent, state registration is required.

## 2.5 Audit and Accounting Requirements

Legal entities operating in the Kyrgyz Republic and subsidiaries and representative offices of foreign entities in the Kyrgyz Republic are required to maintain accounting and financial statements in accordance with legislation.

Financial statements must include information about the financial position of the entity, the results of its operations, and any changes in financial position.

Financial statements must be prepared in accordance with the International Financial Reporting Standards (IFRS) (mandatory for public interest entities), or IFRS for SMEs. Entities are required to prepare consolidated financial statements where this is a requirement in the IFRS or IFRs for SMEs.



Financial statements must be prepared using the Kyrgyz currency unless an international agreement provides otherwise.

Certain entities are required to have their financial statements audited by an external auditor, including:

- Banks and other organisations licensed by the National Bank of the Kyrgyz Republic
- Insurance companies
- Public companies which make a public offering of securities
- Investment funds
- Private pension funds, and
- Other entities as determined by legislation.

## 2.6 Filing Requirements

Entities (excluding budgetary institutions) are generally required to submit their annual financial statements to the founders, participants, or property owners, and to other bodies as provided by legislation, within 60 days of the accounting year end (unless otherwise stipulated by legislation).

Entities of public interest are generally required to publish their annual financial statements and auditors' report (if applicable) within 90 days of the accounting year end, and by no later than 1 June of the current year.

## 3 Finance and Investment

### 3.1 Exchange Control

There are generally no foreign exchange controls.

Anti-money laundering legislation requires reporting persons, including banks and financial organisations and institutions, insurance and reinsurance companies, pension asset management companies, financial leasing companies, pawn shops, gambling establishments, and private pension funds, to identify their clients and to report suspicious transactions to the State Financial Intelligence Service.

### 3.2 Banking and Sources of Finance

The National Bank of the Kyrgyz Republic (NBKR) is responsible for (amongst others) monetary policy, price stability, payment systems, issuing banknotes, and the regulation and supervision of banks, finance institutions and credit institutions that are licensed by the NBKR.

Commercial banks operating in the Kyrgyz Republic provide the majority of financial services.

There are generally no restrictions on foreigners opening bank accounts in the Kyrgyz Republic (certain documentation and a minimum deposit may be required), or on accounts containing foreign currency.

The Kyrgyz Stock Exchange (KSE) provides a marketplace for listing and exchanging securities.

### 3.3 Investment Incentives and Restrictions

For business related incentives, see 5.7.

There are generally no restrictions on foreign business investment in the Kyrgyz Republic. However, restrictions may apply in areas of defence, national security, health, and public morals.

# 4 Employment Regulations

For employment tax considerations, see 5.3.

## 4.1 General Employment Matters

### 4.1.1 National employment standards

Legislation provides minimum rights and conditions of employment in the Kyrgyz Republic (certain exclusions apply), including maximum weekly working hours, rest periods, paid annual leave entitlement, and public holiday entitlement.

A contract of employment may be indefinite or for a fixed duration not exceeding five years (unless otherwise provided for by legislation). A contract of employment must generally be concluded in writing and include:

- Date and place of the contract
- Details of the parties
- Place where the work is to be performed
- Name of the position, profession or occupation, including an indication of the qualifications in accordance with the staffing of the organisation or the specific work function
- Date of commencement of work
- Term of the employment contract
- Mode of operation
- Rights and obligations of the employer and the employee
- Remuneration, including basic salary, bonuses, allowances, incentive payments, and compensation for heavy, dangerous and harmful working conditions
- Reliable information about working conditions, compensation and benefits for employees working in difficult, hazardous or dangerous conditions, and
- Signatures of the parties.

A contract of employment may include a trial period of employment not exceeding three months in duration (six months for certain employees). The employer may terminate the contract of employment if the employee has not performed satisfactorily during the trial period by providing three days' written notice. An employee may terminate a contract of employment during the trial period by providing three days' written notice.



A contract of employment may be terminated in certain circumstances, including by agreement between the parties, expiration of the contract of employment, by the initiative of the employer or the employee, or in circumstances beyond the control of the parties. An employee may terminate a contract of employment by providing two weeks' written notice. An employer may terminate a contract of employment in certain circumstances, including liquidation of the business, repeated failures by the employee to undertake work duties without good reason, or a single gross violation by the employee of work duties.

#### 4.1.2 Pensions and other benefits

Social security contributions (see 5.3.2) generally provide associated benefits.

## 4.2 Visas

Citizens of certain countries (including Canada, the United States, and the United Kingdom) do not generally require a visa for short term visits to the Kyrgyz Republic.

Visas available for entry into the Kyrgyz Republic include:

- Tourist visa
- Business visa
- Private visa
- Investment visa
- Diplomatic visa
- Ordinary visa
- Employment visa
- Student visa, and
- Permanent residence visa.

For further information on Kyrgyz Republic visa requirements, visit [www.mfa.gov.kg](http://www.mfa.gov.kg).

Foreigners may not generally own agricultural land in the Kyrgyz Republic. Other forms of real property (excluding land in border areas) may generally be acquired for a fixed term.

## 4.3 Trade Unions

Employees may be represented by trade unions and their associations, and by other elected representatives of workers. Representatives of employees may negotiate and conclude collective agreements with representatives of employers.



# 5 Taxation

Facts and figures as presented in section 5 are correct as at 4 March 2015.

## 5.1 Corporate Income Taxes

Domestic organisations and individual entrepreneurs are generally subject to tax on their worldwide income.

Foreign organisations and non-resident individuals carrying out activities through a permanent establishment in the Kyrgyz Republic are generally subject to tax on their Kyrgyz Republic source income, subject to the terms of any relevant tax treaty.

The standard corporate income tax rate is 10%. A 0% rate applies to taxpayers engaged in mining activities and sales of gold ore, gold concentrate, gold alloy and refined gold; however, such taxpayers are subject to a monthly income tax on (i) revenue (excluding VAT and sales tax) from the sale of gold alloy and/or refined gold, and (ii) the value of gold (based on world prices in a manner prescribed by the Government) in gold-bearing ore and gold concentrates. The tax rates vary from 1% to 20%, depending on the price of gold. Certain activities, organisations and companies are exempt from corporate income tax, including agricultural producers and leasing companies. From 1 January 2017 to 31 December 2021, the tax rate for leasing companies will be 5%.

Small and medium-sized business (as defined) may use a simplified procedure for determining their corporate income tax base. Qualifying small business entities (as defined) may choose to apply a simplified tax system.

Taxable income must generally include any taxable capital gains. Certain gains are not included in taxable income, including gains in respect of securities held on the day of sale listed on the stock exchange in the highest and second highest listing categories.

Losses from the sale of securities may only be deducted against the sale of other securities. Any unutilised losses from the sale of securities can be carried forward for up to five years. Unutilised losses associated with economic activity can generally be carried forward for up to five years. Legislation does not provide for losses to be carried back.

Group tax consolidation is not available in the Kyrgyz Republic; consequently losses cannot be offset against the profits of another company in the same group.

The tax year is the calendar year.

The corporate income tax return is generally due for filing by 1 March of the following year. Taxpayers may apply for an extended filing date. The maximum extension granted by the tax authority is 30 days. An extended filing date does not extend the tax payment deadline.

Taxpayers (excluding those that are tax exempt or that are subject to tax at the 0% rate) are required to submit quarterly tax returns and preliminary income tax payments from the second quarter of the year. The quarterly tax return and payment is due by the 20th day of the second month following the quarter. The reporting periods are the first quarter, the first six months, and the first nine months of the fiscal year. The provisional payment should amount to 10% of the accounting profit calculated for the relevant reporting period, minus the amount paid in the previous reporting period (where applicable). Any remaining corporate income tax due is payable by the same deadline as for filing the corporate tax return.

## 5.2 Personal Taxes

Citizens of the Kyrgyz Republic and resident individuals are generally subject to tax on their worldwide income.

Non-resident individuals who are not citizens of the Kyrgyz Republic are generally subject to tax on their Kyrgyz Republic source income, subject to the terms of any relevant tax treaty.

Individuals are generally subject to income tax on their taxable income at the rate of 10%.

Taxable income must generally include any taxable capital gains, subject to exemptions, eg for certain gains from the sale of movable or immovable property used for personal purposes and not acquired for business purposes.

The value of property and services received by an individual from a close relative by way of gift or inheritance is not subject to tax (unless received in the course of business activities).

There is no wealth tax in the Kyrgyz Republic.

## 5.3 Employment Related Costs and Taxes

### 5.3.1 Fringe benefits

There is no separate fringe benefits tax. Unless specifically exempt, taxable benefits-in-kind form part of the taxable income of individuals and are subject to income tax.

### 5.3.2 Social security costs

Employers and employees are generally required to make social security contributions in respect of pensions, medical insurance and healthcare. The rate for employers is 17.25% of employee gross salary. The rate for employees is 10%.

## 5.4 Withholding Taxes on Payments Abroad

The rates of withholding tax on the following payments made abroad by companies are generally:

	Rate
Dividends	10%
Interest	10%; interest income in respect of securities held on the Kyrgyz stock exchange in the highest and second highest listing categories is exempt
Royalties	10%
Works and services	10%
Insurance payments	10% if in respect of compulsory insurance or reinsurance contracts; otherwise 5%
Telecommunications or transportation services in international communications and transportation between the Kyrgyz Republic and other countries	5%

Until 31 December 2016, certain payments to foreign entities without a permanent establishment in the Kyrgyz Republic paid by a leasing company are subject to withholding tax at the following rates:

	Rate
Dividends	1%
Interest	1%
Royalties	0%
Works and services	1%

For payments made to recipients in countries with which the Kyrgyz Republic has a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty.



## 5.5 Value Added Tax (VAT) and Sales Tax

### 5.5.1 VAT

VAT is generally levied on the taxable supply of goods, works and services in the Kyrgyz Republic and on taxable imports.

The standard VAT rate is 12%. A 0% rate applies to certain supplies, including exports of goods (excluding exports of gold and silver alloys and refined gold and silver), certain international transportation services, and certain services relating to international transport. Certain supplies are VAT exempt, including certain supplies of residential buildings and land, certain agricultural related supplies, public services, specified medical supplies, certain financial and insurance services, certain passenger transportation services, and exports of works and services.

Entities engaged in business activities are generally required to register for VAT purposes if taxable supplies of goods, works or services exceed KGS4m in a consecutive 12 month period or in a period of less than 12 months. Entities that are not required to register for VAT purposes may generally register voluntarily.

Registered entities can generally recover the VAT with which they themselves are charged on their purchases of goods, works and services, subject to conditions and possible exceptions.

### 5.5.2 Sales tax

Sales tax is generally levied on domestic organisations, foreign organisations operating in the Kyrgyz Republic through a permanent establishment, and on individual entrepreneurs, subject to exemptions. Sales tax is generally levied on revenue from sales of goods, works and services, excluding VAT and sales tax. Different tax bases apply in specified circumstances. The sales tax rates vary depending on factors such as the type of activity and whether the sales of goods, works and services are subject to VAT.

## 5.6 Other Taxes

### 5.6.1 Property tax

An annual property tax is generally levied on the taxable value (as defined) of property as follows (subject to exemptions):

Property	Tax Rate
Group 1: houses, apartments and country houses designed for temporary or permanent residence that are not used for business purposes	0.35%
Group 2: houses, apartments, country houses, guest houses, holiday homes, motels, resorts, production, administration, industrial and other capital structures designed and/or used for business purposes	0.8%
Group 3: temporary facilities made of metal and other structures such as kiosks and containers designed and/or used for business purposes	0.8%
Group 4: vehicles, including self-propelled machines and mechanisms	Varies depending on factors such as the type of vehicle and the year of manufacture

### 5.6.2 Land tax

An annual land tax is generally levied on owners of land and/or land use rights, subject to exemptions. The tax base is the owned area of land (as defined). The land tax rates vary depending on factors such as the use and location of the land.

### 5.6.3 Subsoil use tax

Subsoil use tax generally applies to bonuses and royalties relating to the right to use/use of natural resources, subject to exemptions.

### 5.6.4 Excise taxes

Excise taxes are imposed on certain goods, including ethyl alcohol, certain alcoholic and non-alcoholic beverages, tobacco products, and petroleum.

## 5.7 Tax Incentives for Businesses

### 5.7.1 Research and development (R&D) expenditure

Qualifying R&D expenditure relating to the taxpayer's economic activity may be deducted from taxable income.

### 5.7.2 Free economic zones

Qualifying entities established in a free economic zone (FEZ) benefit from incentives, including an exemption from all taxes in respect of qualifying activities (unless otherwise provided by legislation). An annual fee of between 0.1% and 2% of proceeds from the sale of goods, works and services is generally payable to the General Directorate of the FEZ.

### 5.7.3 High Technologies Park

Qualifying entities established in the High Technologies Park benefit from incentives, including exemptions from corporate income tax, VAT, and sales tax. A reduced tax rate of 5% applies to employees and individual entrepreneurs resident in the High Technologies Park.

### 5.7.4 Other incentives

Other tax incentives may be available to qualifying domestic and foreign investors.

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