



New package of draft amendments to the Tax Code - international taxation

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On 11 May 2022, a draft Law of the Republic of Kazakhstan on amendments and addendums to the Code of the Republic of Kazakhstan "On taxes and other mandatory payments to the budget" (the "Tax Code") was sent to the Mazhilis (the Lower Chamber of the Parliament). The draft Law was developed in the framework of the President's instructions to work on specific measures to strengthen control over the transfer of funds outside of the country and stimulate reinvestment of funds on the domestic market. This draft Law is called as "urgent", therefore, its adoption is expected to be in the first half of 2022.

The draft Law envisages the following amendments in relation to international taxation to the Tax Code:

Removal of tax exemption on dividends paid to non-residents and establishment of a reduced tax rate

It is proposed to replace tax exemption of dividends income of non-residents - legal entities and individuals with a reduced tax rate of 10%, if the conditions specified in Article 645.9(4) and Article 645.9(5) of the Tax Code are met (i.e., non-resident recipient of dividends is not registered in a state with preferential taxation, holding of shares/ participation interest of a Kazakhstan entity exceeds 3 years, dividends are not paid by a subsurface user).

Removal of tax exemption on dividends from securities listed on KASE

The draft Law envisages exclusion of tax exemption of dividends income of non-residents – legal entities and individuals, as well as resident individuals on securities listed on KASE as of the date of accrual of such dividends.

In addition, it is proposed to replace the 5% rate of individual income tax applicable to Kazakhstan-sourced dividends income of resident individuals with the 10% tax rate. Please note that prior to 2018 all dividends received by Kazakhstan resident individuals, regardless of whether they were sourced from Kazakhstan or abroad, were subject to 5% individual income tax.

Limitation of tax deduction of expenses related to purchase of 'intangible' services from affiliated non-resident parties

It is also proposed to limit tax deduction of expenses on so-called 'intangible services purchased from affiliated non-residents. Tax deductibility of such services is supposed to be performed as an adjustment of the taxable income within the amount not exceeding 3% of the taxable income. The draft Law defines expenses on 'intangible' services as costs of management, consulting, audit, design, legal, accounting, advocacy, advertising, marketing, franchising, financial (except for interest expenses), engineering, agency services, services for the provision and (or) processing of information, royalties, access to informatization facilities and Internet resources, maintenance, software updates, transfer of intellectual property rights.

Why is it important for you?

The proposed amendments to tax law should significantly impact tax compliance, as well as established business models and processes.