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Kholmuminov Ziyadulla Amirovich

PhD, Research Scholar

THE OBJECTIVES AND KEY ASPECTS OF TRANSFER PRICING IN UZBEKISTAN

Annotation: The article analyzes the key aspects of transfer pricing in Uzbekistan. Transfer pricing is utilized by multinational companies to optimize their tax burden by redistributing profits within a group of companies. Since January 1, 2020, Uzbekistan's Tax Code has incorporated regulations on transfer pricing, fully enforced as of January 1, 2022. The article discusses the objectives of these regulations, including ensuring tax fairness, attracting foreign investments, aligning national practices with international standards, and combating tax avoidance. The methods for determining arm's length prices in Uzbekistan, their compliance with the arm's length principle, and the specifics of transfer pricing audits are examined in detail. The author propose recommendations for improving the legislative and institutional framework, including capacity building for tax authorities, enhancing documentation control, and employing modern technologies for audits.

Keywords:transfer pricing, tax optimization, Uzbekistan Tax Code, multinational companies, international standards, tax fairness, methods for determining market prices, economic transparency, tax avoidance.

Аннотация:Статья посвящена анализу ключевых аспектов трансфертного ценообразования в Узбекистане. Трансфертное ценообразование используется транснациональными компаниями для оптимизации налоговой нагрузки, перераспределяя прибыль внутри группы компаний. С 1 января 2020 года в Налоговом кодексе Узбекистана введены нормы, регулирующие трансфертное ценообразование, которые полностью вступили в силу с 1 января 2022 года. В статье рассматриваются цели регулирования, включая обеспечение налоговой справедливости, привлечение иностранных инвестиций, приведение национальной практики в соответствие с международными стандартами, а также противодействие уклонению от налогообложения. Подробно раскрываются методы определения рыночных цен, используемые в Узбекистане, их соответствие принципу "вытянутой руки", а также особенности контроля за трансфертным ценообразованием. Автор предлагает рекомендации по совершенствованию законодательной и институциональной базы, включая подготовку налоговых органов, усиление документального контроля и использование современных технологий для аудита.

Ключевые слова: трансфертное ценообразование, налоговая оптимизация, Налоговый кодекс Узбекистана, транснациональные компании, международные стандарты, налоговая справедливость, методы определения рыночных цен, экономическая прозрачность, уклонение от налогообложения.

Аннотация:Мақолада Ўзбекистонда трансферт нархлашнинг асосий жиҳатлари таҳлил қилинган. Трансферт нархлаш трансмиллий компаниялар томонидан солиқ юкини оптималлаштириш мақсадида фойдани компаниялар гуруҳи ичида қайта тақсимлашда қўлланилади. 2020 йил 1 январдан Ўзбекистоннинг Солиқ кодексига трансферт нархлашга оид қоидалар киритилди, улар 2022 йил 1 январдан тўлиқ кучга кирди. Мақолада мазкур қоидаларнинг мақсадлари, жумладан, солиқ адолатини таъминлаш, хорижий инвестицияларни жалб этиш, миллий амалиётни халқаро стандартларга мослаштириш ва солиқдан қочишга қарши кураш масалалари кўриб чиқилган. Ўзбекистонда бозор нархларини аниқлаш усуллари, уларнинг "узоқлашган қўл" принципига мувофиқлиги ва трансферт нархлаш бўйича назоратнинг ўзига хосликлари батафсил таҳлил қилинган. Муаллиф солиқ органларининг салоҳиятини ошириш, ҳужжатлаштириш назоратини кучайтириш ва аудиторликда замонавий

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технологиялардан фойдаланиш каби қонунчилик ва институционал базани такомиллаштириш бўйича тавсиялар беради.

Калит сўзлар: трансферт нархлаш, солиқни оптималлаштириш, Ўзбекистон Солиқ кодекси, трансмиллий компаниялар, халқаро стандартлар, солиқ адолати, бозор нархларини аниқлаш усуллари, иқтисодий шаффофлик, солиқдан қочиш.

Transfer pricing primarily serves as a mechanism for multinational companies to optimize their overall tax burden by redistributing profits within the group to entities operating in jurisdictions with favorable tax systems. Typically, a holding structure includes both large enterprises under standard tax regimes and smaller entities benefiting from preferential tax policies. The entities with the least tax burden are often the main players in transfer pricing arrangements.

To achieve tax optimization, transfer prices—prices differing from market rates—are set for transactions within the group. These artificially set prices form the essence of transfer pricing, enabling related entities to influence key financial metrics such as transaction values, income levels, and profitability.

This practice has attracted significant scrutiny from regulatory authorities globally, including in Uzbekistan. To mitigate the risks of profit shifting and ensure fair taxation, Uzbekistan's Tax Code, effective January 1, 2020, incorporates provisions to regulate transfer pricing. These provisions aim to address and adjust the tax implications of controlled transactions, fully enforced as of January 1, 2022.

Transfer pricing remains a highly relevant topic in today's globalized economy, where cross-border trade and multinational business structures are increasingly commonplace. For Uzbekistan, the regulation of transfer pricing plays a pivotal role in:

- **Ensuring Tax Revenue Integrity.** By addressing profit shifting, transfer pricing regulations help safeguard the national tax base, ensuring that tax revenues reflect the economic activities occurring within the country.
- **Attracting Foreign Investment.** Clear and internationally aligned transfer pricing rules create a predictable tax environment, boosting investor confidence and encouraging foreign direct investment (FDI).
- **Aligning with Global Standards.** Uzbekistan's adoption of transfer pricing regulations based on OECD guidelines signals its commitment to international best practices, facilitating greater integration into the global economy.
- **Combating Tax Avoidance.** In an era where digital business models and intangible assets dominate, transfer pricing regulations are crucial for addressing new challenges in tax avoidance strategies.
- **Supporting Economic Transparency.** By requiring detailed reporting and documentation, these regulations promote transparency and accountability in cross-border transactions.

The increasing complexity of global supply chains and the rise of digital commerce amplify the need for robust transfer pricing frameworks. For Uzbekistan, effective regulation ensures that its tax policies remain relevant and adaptive to modern economic dynamics.

The legislative framework is grounded in international best practices, notably the "arm's length principle," which compares prices set between related parties to those established between independent entities. Despite its complexity, transfer pricing legislation aims to determine whether transaction prices align with market rates. This complexity arises from the unique characteristics of each transaction and the need for detailed analysis.

Uzbekistan's Tax Code adopts a comprehensive approach, detailing various scenarios to ensure compliance. While this mirrors the OECD's guidelines, the Tax Code lacks illustrative examples

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provided in the OECD's recommendations, making supplementary references to the OECD framework valuable for understanding.

Transfer pricing audits in Uzbekistan are conducted independently and encompass:

1. **Transactions between related parties:**
   - ✓ Residents and non-residents.
   - ✓ Tax residents of Uzbekistan exceeding specified income thresholds for controlled transactions.
2. **Transactions deemed equivalent to controlled transactions:**
   - ✓ Transactions involving intermediaries without substantial functional contributions beyond resale.
   - ✓ Cross-border trade in globally traded commodities.
   - ✓ Transactions with entities in offshore jurisdictions.

The Tax Code defines related parties based on:

- ✓ Direct or indirect ownership of at least 20% equity.
- ✓ Familial relationships.
- ✓ Hierarchical subordination.

In ambiguous cases, tax authorities may seek judicial determinations of relatedness.

Uzbekistan's regulations outline five methodologies for determining arm's length prices:

1. Comparable Uncontrolled Price Method (CUP). The primary method, preferred for most transactions.
2. Resale Price Method. Applied when goods are resold without significant modifications.
3. Cost-Plus Method: Used when analyzing production-related transactions.
4. Transactional Net Margin Method (TNMM). Focuses on profitability comparisons.
5. Profit Split Method. Analyzes profit allocation across related entities.

These methods are categorized into:

- Transaction-based methods. CUP, Resale Price, and Cost-Plus.
- Profit-based methods. TNMM and Profit Split.

Priority is given to transaction-based methods, progressing to profit-based methods if necessary. The sequence ensures that the most appropriate method is applied to determine compliance with market principles.

Participants in controlled transactions must:

1. Annually notify tax authorities of controlled transactions, submitting details by the deadline for financial reporting. Information should include:
   - ✓ Transaction year.
   - ✓ Transaction subject matter.
   - ✓ Participants' details, including tax identification numbers.
   - ✓ Income and expense amounts, segregating transactions subject to regulation.
2. Provide documentation upon request, no earlier than June 1 of the following year. This includes all relevant records related to controlled transactions.

Transfer pricing regulations in Uzbekistan aim to align domestic practices with international standards, ensuring fair taxation and preventing profit shifting. By adopting the OECD's principles while tailoring them to the local context, the country seeks to balance regulatory oversight with the complexities of cross-border transactions. These measures reinforce tax equity and enhance transparency within the global economic landscape.

The implementation of transfer pricing regulations in Uzbekistan is a critical step toward enhancing tax equity and addressing the challenges posed by globalization. However, to maximize the effectiveness of these regulations, several areas warrant attention:

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1. Capacity Building for Tax Authorities. Training tax officials in the complexities of transfer pricing methodologies is essential. Specialized programs focusing on international practices, digital economy implications, and the valuation of intangibles should be developed.

2. Strengthening Documentation and Compliance. Encouraging companies to maintain detailed and accurate records of controlled transactions can enhance transparency. Implementing penalties for non-compliance and rewards for full disclosure can improve adherence.

3. Promoting Public-Private Dialogue. Engaging with businesses through workshops and consultations ensures that the regulations address practical challenges while maintaining fairness. Regular feedback loops can refine the framework over time.

4. Leveraging Technology for Audits. Utilizing advanced analytical tools and software can streamline the audit process. Big data analytics and artificial intelligence can identify anomalies and flag high-risk transactions efficiently.

5. Encouraging Regional Cooperation. Collaborating with neighboring countries to harmonize transfer pricing standards can reduce the risk of double taxation and enhance cross-border trade.

6. Periodic Review of Regulations Conducting regular assessments of the regulatory framework ensures it remains aligned with evolving global standards and economic realities. This includes adapting to new business models such as the gig economy and digital platforms.

6. Public Awareness Campaigns. Increasing awareness among businesses about the benefits of compliance and the risks of non-compliance can foster a culture of transparency and accountability.

By addressing these areas, Uzbekistan can strengthen its transfer pricing framework, ensuring that it not only prevents tax base erosion but also fosters a conducive environment for sustainable economic growth. Effective implementation of these recommendations will position Uzbekistan as a competitive and transparent destination for global investments.

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