

Registration of a LLP under Kazakh law and tax aspects: opportunities and regulations

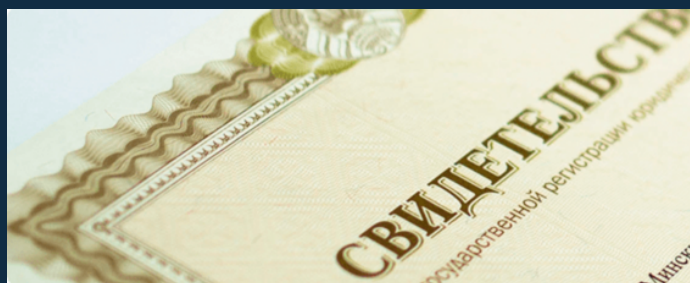
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Among the various forms of company registration permitted by Kazakh law, the local LLP is the most flexible and effective solution, characterized by a wide operational and fiscal freedom, without the burden of rigid administrative controls. The registration of a limited liability company (LLP) in Kazakhstan can be carried out by different categories of entities. Citizens of the Republic of Kazakhstan can register an LLP, as well as foreigners who have a valid residence permit in the country. In addition, foreigners without a residence permit, but in possession of a business immigrant visa, are also allowed to register an LLP. Finally, it is possible for a foreign legal person, i.e. a foreign legal entity, to register an LLP in Kazakhstan. The process of

must be approved by the participants of the LLP and, once these steps have been completed, you can proceed with registration with the relevant government bodies. Once registration is complete, you will be able to open a bank account and define an employer's liability insurance contract, which will cover any damages arising from accidents at work. The company seal will then be prepared, which will officially represent the identity of the company. Finally, if the activity of the LLP requires specific licenses or notifications to government authorities, it will be necessary to obtain the relevant license and make the notification of commencement of activity. With regard to the risks associated with participation in an LLP, it should be noted that the company is not liable for the obligations of its participants. In fact, the latter are liable for the obligations of the LLP only to the extent that they have contributed to the authorized capital of the company: in this way, the liability of each participant is limited to the value of their contribution. As for the minimum authorized capital, it can be zero if the annual income of the LLP does not exceed USD 1.7 million and the average number of employees is less than 100. However, if the income exceeds this threshold or if the number of employees is higher, the minimum authorized capital will be approximately EUR 700.00. As for the time required to complete the registration of an LLP, the process generally takes about two months, starting from the collection of documents to the final registration. During this period, it will be necessary to interact with the relevant bodies. The mandatory bodies for the management of an LLP are the meeting of participants (or of the sole participant, if the LLP is constituted by only one member) and the executive body, which can be either a collegiate body or a sole executive body. In addition, the articles of association of the LLP may provide for the creation of a supervisory board and/or an audit committee to monitor the company's operations and ensure transparency in business operations. Following the declaration of independence of Kazakhstan in 1991, after the collapse of the Soviet Union, the country was faced with the need to create a completely new tax system. In the immediate post-independence stage, a decree was issued on "Taxation of Enterprises, Associations and Organizations". and in 1995, a new decree on "Taxation and Other Mandatory Payments to the Treasury" was introduced, which regulated the tax system in the country. However, this decree had only a general meaning, referring to ministerial instructions for specific details regarding taxes. Only in 2002, with the introduction of the "Code of the Republic of Kazakhstan on Taxation and Other Mandatory Payments to the Treasury", a more comprehensive legislative text was adopted, which in 2018 was replaced by a new version.



LLP registration involves a number of steps that must be completed with rigor and care. Initially, it is necessary to choose a unique name for the company that is not already in use by other businesses. This name must be provided in three languages: Kazakh, Russian and English, and must include both the full and abbreviated form. Next, it is necessary to determine the legal address of the company, which can be the address of the founder or another space, such as an office or non-residential real estate, which can be purchased or rented. Another essential step is the classification of the economic activity of the LLP, which must comply with the categories provided for by Kazakh legislation. In addition, it is necessary to establish the size of the business, determining whether the company will be classified as small, medium or large, based on the parameters provided for by the law. Another aspect concerns the determination of the amount of authorized capital, which is a fundamental requirement for the registration of the LLP. At this point, it is essential to choose the tax regime of the company, which will define the methods of taxation. By drafting the company statute, the internal rules of the company will be established and the registration can be formalized by preparing the constitutive documents. The statute, once drafted,



The Kazakh tax system has two main tax regimes: the common tax regime and the simplified tax regime. The common regime provides for a corporate income tax of 20%, with no restrictions on turnover, number of employees or type of activity. The simplified regime, on the other hand, provides for a combined income and social tax of 3% each, applied on revenues, with reporting and payment in the middle of the year and at the end of the year. According to Article 683 of the Tax Code of the Republic of Kazakhstan, an LLP can apply the simplified tax regime if the following requirements are met: the number of employees does not exceed 30 people, the half-yearly income does not exceed 24,038 MCI, there are no structural divisions within the company, the share of participation of other legal entities does not exceed 25% and the founder or participant is not simultaneously a partner of another legal entity with a special tax regime. If any of these conditions is violated, the LLP loses the right to apply the simplified regime, automatically falling into the category of ordinary tax regime companies. LLPs in the simplified regime are obliged to register for VAT purposes if they exceed an annual income limit of 20,000 MCI (approximately €140,000.00). In this case, the LLP must register as a VAT payer, pay a 12% tax on all revenues and file VAT returns as required by law. If the income limit is not exceeded, VAT registration is not mandatory. As for wages, the minimum wage is 70,000 tenge, approximately €140.00. Various taxes and contributions are applied to this amount, including 10% for personal income tax (IIT), 10% for mandatory pension contributions (CPC), 3.5% for social contributions (PS), 3% for mandatory medical insurance (OSMS) and 2% for health insurance contributions (VOSMI). These taxes are paid monthly (regardless of the LLP's income) with the payment deadline set for the 25th of the following month. Each year, the Monthly Calculation Index (MCI) is set, a parameter used to calculate and determine various tax, salary and pension amounts, including the calculation of taxes and social fees. As of January 1, 2023, the MCI is equal to 3,450 tenge, approximately 7 euros. As for dividends, according to the Kazakh tax code, dividends are distributed among the founders or participants of the LLP and are subject to a 15% tax. However, for non-resident participants, the tax rate may be reduced to 0% after three years. Dividends are usually distributed once a year, unless otherwise provided in the company statute. In the case of personal income tax, it is levied on income from any source, both for residents and non-residents, although for non-residents the taxation is limited to income from Kazakh sources. The basic rate for income from work is 10%, while for dividends, royalties, interest and capital gains it is 15%. Employers are obliged to withhold tax at source for income from work, while for income not subject to withholding tax, the taxpayer must submit a tax return by March 31 of the following year and pay the tax due by April 10. As for corporate income tax, it is applicable to all legal entities, whether resident or non-resident, with the exception of

state institutions. The tax is levied on all income of resident companies, while for non-resident companies it is only due on income of Kazakh origin. The rate for dividends received by non-residents was recently increased to 10%. The 2022 tax reform also included a limit on the deductibility of passive interest and losses, as well as the introduction of simplified regimes for smaller companies. In addition, companies are required to pay Social Tax, a tax on personnel that is equal to 9.5% of total expenses for employees and can only be paid by employers and cannot be passed on to employees. Value added tax (VAT) is levied on imports and domestic transactions of goods and services. Companies that exceed the revenue limit of 20,000 MCI are required to register as VAT payers. However, there are many new proposals in the field of taxation in the recent round table held on February 27, which was attended by representatives of the Ministry of National Economy and the Ministry of Finance, the Committee for Finance and Budget of the Mazhilis of the Kazakh Parliament. The discussion focused on the topic of "new initiatives of the Government related to the draft Fiscal Code". The First Deputy Minister of National Economy of Kazakhstan, Azamat Amrin, illustrated the main changes proposed in the new draft law on the reform of the Kazakh tax system. Among the new proposals, one of the main ones concerns the differentiation of the VAT rate to 16%. However, significant advantages are also expected for specific sectors, for example, the agricultural sector which will benefit from a total exemption from VAT, which will allow producers of agricultural products to make their products more competitive, both on domestic and international markets. In addition, a reduced VAT rate of 10% for the healthcare and medical sector has been proposed, with the aim of supporting and stimulating the healthcare industry in the country. The bill, which aims at an even more simplified, fair, transparent and flexible tax system, fits perfectly into the broader strategy of the Kazakh government aimed at attracting foreign investments, with the aim of stimulating the country's economic growth and improving trade with foreign countries.