

Four reasons why German IT companies should consider Uzbekistan

German IT firms should consider Uzbekistan for expansion due to strong economic ties, favorable taxes, skilled workforce, and supportive government policies.

Ташкент, Ташкент, Узбекистан, April 2, 2024 /EINPresswire.com/ -- According to leading experts in the economic sphere, there are still medium-term risks of negative scenarios in the global economy. For instance, a group of economists assessed the probability of recession occurring in the leading Western European countries at over 30%.

How should businesses, especially IT companies, handle such a situation? After all, the sphere of information technologies is constantly evolving and requires permanent investments and the creation of innovative products for consumers. During such a challenging period, it is imperative not only to preserve market share, but also to make technological breakthroughs in order to explore new markets and increase profits in a favorable period of global economic growth.

One way to attaining such an objective could be through partial or complete relocation of operations to developing countries, with particular attention directed towards Uzbekistan. There are substantial reasons for this consideration, which we shall elaborate on in this article.

Reason #1. Strong Economic Ties and Stability

Germany stands as Uzbekistan's largest economic partner within the European Union,



Uzbekistan Outsourcing Konferenz

Recession Probability 2024 (in %)



Source: Economic Experts Survey Q4 2023.

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Recession probability in 2024 by country

constituting 26% of the total trade volume with the EU. According to the Statistics Agency, Germany occupies the sixth position in terms of the import volume of goods and services to Uzbekistan, representing a share of 2.6% of the total import volume. The trade turnover between the two countries has exceeded \$1 billion for two consecutive years.

In the foreign trade turnover between Uzbekistan and Germany, the share of goods and services originating from the IT sector is gradually increasing. As per the outcomes of the previous year, 16 resident companies of IT Park exported products to Germany valued at \$3.263 million, accounting for 4.3% of the total volume of Uzbek IT exports to Germany.

Furthermore, around 60% of the total investment volume in Uzbekistan from EU countries in 2021 was contributed by Germany. Over recent years, investments have reached 4 billion euros, with the number of joint ventures doubling. Currently, the Republic hosts over 200 companies with German capital participation, including major industrial enterprises providing Uzbekistan with machinery and equipment.

Last year, a business forum was convened, gathering entrepreneurs from both nations, during which the parties reached agreements on project implementations totaling over 9 billion euros. Previously, a series of accords were signed between the countries, encompassing agreements on the avoidance of double taxation and investment protection.

Consequently, Uzbekistan has consistently proven itself as a dependable partner for German capital and industrial enterprises, while presently extending opportunities to IT companies, fostering a conducive environment for their expansion.

Moreover, evaluations and ratings from international organizations affirm the reliability of the economy and the stability of the business climate in the nation. As per the economists' survey referenced earlier in the article, the risk of recession in Uzbekistan markedly lower in comparison to European countries.

Reason #2: Favorable Tax Environment

During an economic downturn, the tax regime can exert a substantial influence on the ongoing progression of a company. Rather than directing resources towards production expansion or fostering business stability, a portion of revenue is diverted to tax expenditures. Nonetheless, avenues exist to mitigate tax costs. Let's explore this potential in figures.

In Germany, corporate tax comprises two parts: income tax with a solidarity surcharge of 15.825% and trade tax ranging from 8.75% to 20.3%, contingent on the enterprise's location. The value-added tax (VAT) rate stands at 19% (7% for certain goods and services), while personal income tax follows a progressive scale ranging from 14% to 45%. Individuals with annual incomes below 11,604 euros are exempt from income tax. Furthermore, there are social contributions:

- Pension insurance — 18.6%
- Unemployment insurance — 2.4%

- Health insurance — 14.6%
- Long-term care insurance — 3.05%
- Bankruptcy insurance — 0.09%, paid by the employer.

The first 4 types of social contributions are shared equally between the employer and the employee, while bankruptcy insurance is paid only by the employer.

In Uzbekistan, subsequent to the implementation of several economic reforms, the tax regime has been rendered more favorable for the establishment and operation of businesses. Corporate taxes are contingent upon the type of the company's activities, ranging from 4% to 15%. The social tax rate stands at 12%, while VAT and personal income tax are both set at 12%.

However, there exists a significant avenue for IT companies to substantially reduce their tax burden. To achieve this, it is necessary to obtain the status of IT Park resident, wherein the company makes monthly contributions equivalent to one percent of its total revenue. In such a case, residents are left with a sole tax obligation, albeit at a reduced rate: personal income tax — 7.5%.

Table 1. Comparison of tax regimes

Germany:

Corporate tax - 15.825%

Trade tax - 8.75-20.3%

Social tax - 19.4% – borne by the employer

19.3% – borne by the employee

VAT - 7-19%

Personal income tax - 14-45%

Uzbekistan:

Corporate tax - 4-15%

Social tax - 12%

VAT - 12%

Personal income tax - 12%

IT Park resident:

Corporate tax - 0%

Social tax - 0%

VAT - 0%

Personal income tax - 7,5%

Reason #3: Swift Launch, Minimal Risks, and Facilitation of Export

Swift Launch

Foreign companies have the opportunity to establish their representation in Uzbekistan without the physical presence of the applicant. This can be accomplished through the [One Stop Shop](#)

service provided by IT Park. Under this service, assistance is extended to the applicant in company registration, preparation of initial documentation, bank account opening, and tax authority registration.

Furthermore, IT Park provides its residents with a [virtual office](#) service, allowing companies to conduct their operations without the supplementary burdens of office rental and maintenance, utility expenditures, and expenses for office manager and support personnel.

Through the virtual office service, companies acquire a postal address and the capability to receive and forward correspondence. This service empowers enterprises to maintain remote operations from any global location without the risk of tax control measures being applied due to the absence of a legal entity at the registered address.

Further details regarding the support programs for IT companies will be presented on April 23 at the Uzbekistan Outsourcing Conference in Berlin.

Risk minimization

Moreover, IT Park has launched the Zero Risk program tailored for foreign companies seeking to establish a full-fledged presence in Uzbekistan, while reducing risks and costs to a minimum.

Through this program, the following benefits can be obtained:

- Free office space in the regions of the country for 12 months.
- Assistance in furnishing the office with equipment and furniture for up to 100 employees, with 15-month grace period for payments.
- Reimbursement of up to 15% of payroll expenses for Uzbek citizen employees.
- Reimbursement of up to 50% of expenses and up to \$5000, incurred for training and professional development of employees.

Meanwhile, foreigners establishing or working in a company can obtain an [IT visa](#). This visa considerably streamlines their stay in the country, affording them the opportunity to access education and healthcare services on par with citizens.

Furthermore, IT Park offers a novel “Regional Headquarters” program, designed for international service companies conducting operations in two or more foreign countries. If the export volume exceeds that of locally marketed goods and services, enterprises may be eligible for incentives and preferences facilitating the establishment of regional offices in Uzbekistan and active involvement of local IT specialists.

Reason #4: Skilled Workforce and Young Population

It is noteworthy that approximately two-thirds of the country’s 36-million population comprise youth under the age of 30, with a high level of literacy and proficiency in foreign languages. The government places significant emphasis on education, which plays a pivotal role in cultivating a robust and competitive human capital within the nation.

In 2019, the government launched the “One Million Uzbek Coders” state program with the objective of cultivating expertise in four pivotal domains: data analytics, Android development, front-end, and full-stack development. Following the results of the program, nearly 1.2 million individuals successfully completed the courses. In 2023, the program was extended and broadened to encompass 8 directions. The government is consistently engaged in endeavors aimed at cultivating proficient workforce for the technological industry.

Overall, the country boasts more than 200 higher education institutions, annually graduating over 650 thousand students. Beyond the state programs, specialized educational institutions provide training in the field of education. Currently, Uzbekistan hosts approximately 65 IT-universities, annually producing over 30,000 highly qualified professionals meeting the urgent demands of the market.

Moreover, the young populace of the country exhibits a keen interest in learning foreign languages, as indicated by the following statistics: among the 36 million citizens, 5 million are proficient in English, while over half a million are fluent in German.

It is noteworthy to highlight the labor cost. In Germany, the average annual salary in the IT sector stands at 65,000 euros, whereas in Uzbekistan, it amounts to approximately \$10,000 per year. Although the rate may vary depending on the position and field of expertise, the disparity in salary levels between the countries is distinctly apparent.

And that is not all

The aforementioned arguments substantiate the unparalleled opportunities that Uzbekistan presents to the global IT industry. The measures proposed by the government will empower companies to undertake substantial advancements in innovative technologies and prepare for market expansion during periods conducive to the global economy.

The Uzbekistan Outsourcing Conference in Germany, slated for April 23rd in Berlin, will comprehensively showcase the unique tax environment, skilled workforce, government initiatives, and business support measures available in Uzbekistan, alongside other distinct opportunities. To participate in the event, please use this link to register:

https://bit.ly/uzboutsourcingconference_berlin.

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