

## 4 Turkmenistan

Azat Agayev

### 4.1 Introduction

Turkmenistan is the most ethnically homogeneous former Soviet republic in Central Asia. Turkmens, or Turkomans, a Turkic-speaking people with a Sunni Muslim religious heritage, account for 73 per cent of the population. Russians account for about 10 per cent and Uzbeks constitute the third largest ethnic group with 9 per cent. Other ethnic groups include Kazakhs, Tatars, Ukrainians, Azeris, and Armenians. In contrast to some of the other former Soviet republics, Turkmenistan has not suffered a massive emigration of minorities, as the Turkmen government has pursued a policy of ethnic conciliation in the 1990s.

With an estimated 4.8 million inhabitants in 2000, Turkmenistan is the least populated of the former Soviet republics in Central Asia. Settlement is concentrated along rivers, canals, and other waterways. Ashgabat, the capital and largest city, is located near the Karakum Canal. Other important cities include Mary, Turkmenbashi, Turkmenabat (formerly Chardzhou) and Dashoguz. More than half of the population live in rural areas.

The main languages are Turkmen, Russian, and Uzbek. English although an official language, is not widely spoken. Turkmenistan is predominantly Muslim. The 1992 constitution established Turkmenistan as a republic, and provides for a President, elected by the people to a maximum of two five-year terms. The President serves as head of state, head of government, and supreme commander of the armed forces. The President is advised by the Council of Ministers. A 50-member Medjlis serves as the country's legislative body. The Khalk Maslahaty, which is Turkmen for People's Council, was established by the constitution as the supreme representative body in Turkmenistan. Although it is ascribed few powers by the constitution, the council may debate legislative measures and constitutional amendments and pass a measure of no confidence against the President. It is composed of the members of the Medjlis, 10 appointed representatives, 50 directly elected members, the members of the Council of Ministers, the chairperson of the Supreme Court, the chairperson of the Supreme Economic Court, the Procurator General, and the heads of local councils.

Saparmurad A. Niyazov was elected chairman of the Supreme Soviet in 1990, and, following independence in 1991; he took over the office of President in 1992. The Communist Party was renamed the Democratic Party of Turkmenistan, and the growth of opposition political parties has been severely restricted. In practice President Niyazov wields almost absolute power. In 1992 he won 99.5 per cent of the vote in an uncontested presidential election, and he appointed himself chairperson of the Council of Ministers. According to the constitution of 1992, President Niyazov has the power to disband the Medjlis and appoint and dismiss all judges. Political freedoms and the right of dissent are limited, and the media is State controlled. In a referendum held in January 1994, 99.9 per cent of the voters endorsed his leadership, allowing him to extend his presidency until 2002.

In 1999 President Niyazov was voted President for life at the annual meeting of the Khalk Maslahaty. At the Khalk Maslahaty in February 2001 the President decreed that no President could remain in office beyond 70 years of age. This effectively means his term will end in 2010.

Although Turkmenistan is officially a member of the Commonwealth of Independent States (CIS), under President Niyazov the government has preferred bilateral agreements to multilateral arrangements.

Mining and energy extraction are the most important branches of industry. Natural resources are considerable and include important reserves of oil and natural gas, as well as sulphur, salt, coal, and copper. Energy products, primarily natural gas, are the largest export items. The Turkmen government has launched several large-scale ventures involving foreign partners to explore, develop, and export oil. Turkmenistan's main export potential is in gas.

Several new pipelines have been proposed, including a 6,700-kilometre (4,150-mile) pipeline to the Chinese coast. The Trans-Caspian Gas Pipeline (TCGP) through Azerbaijan and Georgia to Turkey has been under discussion for almost 10 years. The project has been shelved for the foreseeable future.

Agriculture is a leading sector of Turkmenistan's economy. The primary crop is cotton, with long-staple cotton varieties contributing about one-third of total output. Other crops include wheat, fruit, and silk. Livestock raising is also important, especially of karakul sheep, horses, and camels. Other industries include food processing, textile manufacturing, and carpet weaving.

The government has scarcely altered Soviet-era economic structures. Most economic activity is state controlled. Erratic gas exports and problems related to payment for gas continues to hamper the maintenance of this heavily subsidized economy, particularly in the health and education sectors.

Education is free and compulsory between the ages of 7 and 16. Vocational schools and institutes of higher education provide advanced education.

## **4.2 Overview of Fiscal Position**

### **4.2.1 A Brief Review of Economic Activity**

#### *Dynamics of growth. The analysis of micro economical tendencies*

According to the data provided by Turkmen statisticians, the period when the country economy was characterized by instability, is past. The economy was unstable in the early 90-s under the conditions of hypertrophy, tough specialization of raw materials, predominance of extractive branches of industry, acute dependence on import of a wide range of technical – material resources, food stuffs, other consumer goods. Breaking off economic ties, insolvency of countries – consumers of Turkmen gas in the first years of independence led to the situation when the fall of physical volumes of production had reached 18 % of GDP. There was a period when the volumes of production in the structure of consumed resources had dropped up to 52 % whereas import had come to 47% of overall volume of consumed resources.

However, as a result of transformations, by 1999 Turkmenistan had achieved some positive outcome: the volume of production of own commodities and services had almost reached 70% of the country's needs and import had fallen back to 28%.

In the second half of the 90s despite the still existing dependence of the economy of Turkmenistan on the development of energy complex, the structure of GDP changed greatly. Thus, if in 1995 the industry share in the GDP structure made 53%, in 1999 it made 32%. The structure of industrial production has changed considerably. For the period of 1995 – 1999 the share of fuel industry was reduced from 43% to 33%, whereas the share of light and food industries which got the priority development in those years, had increased from 35 % to 55%.

Despite all the difficulties of the transition period agriculture got an accelerated development in the 90-s with two equally functioning sectors – public and private. The country managed to create a class of land proprietors playing a substantial role in the increase of agricultural production volume. The support on the part of the government had promoted their formation. Thus, for instance, producers of strategically important kinds of production – cotton and grain – receive soft credits, are tax – exempt and the government covers half of their expenditures for seeds, chemicals, mineral resources, technical services. With preserving the major priority branch – cotton – growing – all these measures allowed to create powerful grain production alongside with conditions for live – stock farming and processing branches development. Achieving bread self – supply might be considered the first serious victory on the way to a full food supply sovereignty. The unprecedented advance has been achieved in the current year – the government purchased almost 1700 thousand tons of wheat from peasants.

For the years of reform more than 14 billion dollars of foreign investments were directed into the economy of Turkmenistan. For the period of 1994 – 1999 the foreign investment capital share increased and made 24 % of total volume. However, with strengthening the economic power of the state off budget funds are being formed which are used for government targeted programs of priority importance.

#### *Inflation rate and exchange rate*

In the latest years the budget has been balanced, the manat – dollar rate of exchange has been stabilized and the rate of inflation has been insignificant. Since 1991 – the last year of existence of the USSR – up to 1993 – the last year of rouble zone existence – the rate of inflation was measured in tens, hundreds and even thousands per cent per year. However the price growth continued and by November 1996 the total price level in Turkmenistan had increased tens of thousands times in comparison with December 1991. Simultaneously with the price growth the currency (dollar) exchange rates dropped. First it was rouble rate (1991) and later on, with the launching of the national currency. The Turkmen national currency – manat – was launched on November 1, 1993. The official exchange rate was established as \$1 equal to 2 manats. Subsequently, the rate of exchange changed and equalized 200 manats for one dollar in 1995; 4,070 manats in 1996; 4,165 manats in 1997 and since 1998 up to present the official rate of exchange was fixed as 5,200 manats for one US dollar. Since 1993 with the launching of the national currency, the price dynamics began to reflect individual peculiarities of the country's monetary policy.

In 1993 – 1995 Turkmenistan increased monetary base by 20 - 28% monthly; thus prices reacted by a monthly growth of 25 – 43%. The cash growth in circulation in 1993 – 1995 constituted 47.8%. The issue of cash increased 3 times and made up 7 billion manats. For the recent years the process of involving internal sources of investment into the sphere of currency turnover and currency accrual has become unprecedented in its scale. The tendency of the growth of this process and its significance require special study. It is worth noting that the major factors accounting for the quality of monetary policy are: rate of monetary base growth, rates of changes of velocity of money and rates of real GDP growth.

Transition from a soft to a tougher monetary policy in the middle of 1996 immediately affected the dynamics of prices. In the world economy one of the most important sources of maintaining high rates of monetary base increase (though not the only one) is monetization of a budget deficit – its financing at the cost of issuing money instruments.

However in Turkmenistan insignificant budget deficit and even the lack of it were not the obstacle for inflation. An essential share of internal net worth gain of monetary funds was used for crediting construction of industrial and agricultural units in the form of “centralized” or “targeted” credits. The real output of units under construction could be expected at beginning of new century. The share of gross accumulation in the overall GDP volume, i.e. funds invested in the development, reached 45.5% exceeding the level of 1991 by more than 21%. The economic situation of the first years of independence allowed to carry out large – scale investments which several times exceeded the previously used investments (5 billion US dollars).

It is due to this that inflation was caused by currency issue and was connected with formal budget deficit only to an inconsiderable degree. Velocity of money in Turkmenistan in 1993 – 1995 increased considerably. Its drastic and unexpected fits and starts caused an additional acceleration of inflation (the average monthly rates of increase of velocity of money reached 20% and more within a year.)

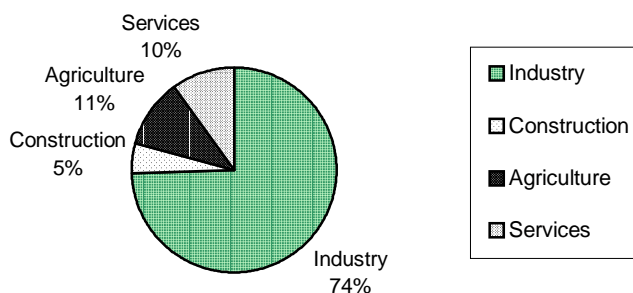
By the end of 1996 velocity of money had decreased which was one of the most reliable signs of increasing demand for national currency and confirming financial stabilization.

Since the middle of 1996 the actions of the Government of Turkmenistan were directed at the consecutive implementation of targeted monetary policy, critical cutbacks of budget deficit. This resulted not only in achieving financial stabilization and stabilization of national currency exchange rate but also in reduction of slump in production, renewal of economic growth, increase of real wages and salaries.

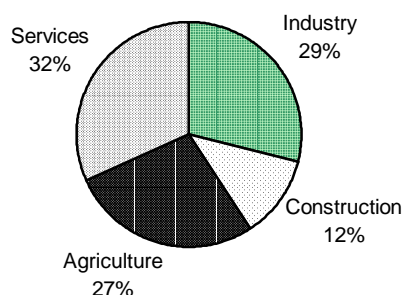
### Results of 2000 in a mirror of statistics

During the years of independence significant structural changes in GDP took place. The share of services has sharply increased from 9.9% in 1992 up to 31.8% in 2000, and the share of production has decreased by 20%. The growth of volumes and share of services has taken place mainly, for the account of trade, banking, financial activity, insurance and operations with real estate. In GDP structure the share of the industry sharply decreased from 74.5% in 1992 up to 29% in 2000. The share of the agriculture has increased by 16.4 percent points, and construction – by 7.2 percent points.

**Figure 4.1 1992 year**



**Figure 4.2 2000 year**



The share of the industry in GDP at this stage decreased because of the reduction of the natural gas export. Further, with the increasing of production of the production of natural gas, petroleum and cotton, the share of the industry in GDP will grow.

The economic reforms carried out in Turkmenistan during the years of the independence are directed on the strengthening of economic independence and achievement of stable development of all spheres of economy. Despite of break of the economic cooperation and disintegration of the former Soviet economy, in Turkmenistan there were no radical declines in production volumes. During 1992-2000 the macroeconomic indicators of development of the country had positive rates of growth.

Over the years of the independence in Turkmenistan the large work on reorientation of the industry from downstream industries to the upstream industries was done. If in 1992 the investments to the industry accounted to 16% from their total amount, in recent years the same investments made up more than 50%. The restructure in the industry caused the sharp increase in the structure of industrial production of the shares of light and food industries from 19.5% up to 30% from 12.7% up to 25.6% respectively.

The qualitative increase of the living standard of the population is connected with the growth of final consumption, including household. In 1992 the consumption of household – was 32.3% and 67.6 accordingly. The high level of consumption is provided, mainly at the expense of own production. In 2000 in the volume of goods and services the share of domestic

production was about 70%, the import – 30%, that proves the integration of Turkmenistan to world economy.

The characteristic feature of this period is the diminishing of tax burden and subsidies to the economy. In the cost of the goods and services the taxes to products have reduced from 5.2% up to 3.0%, subsidies for products – from 1.8% up to 0.6%.

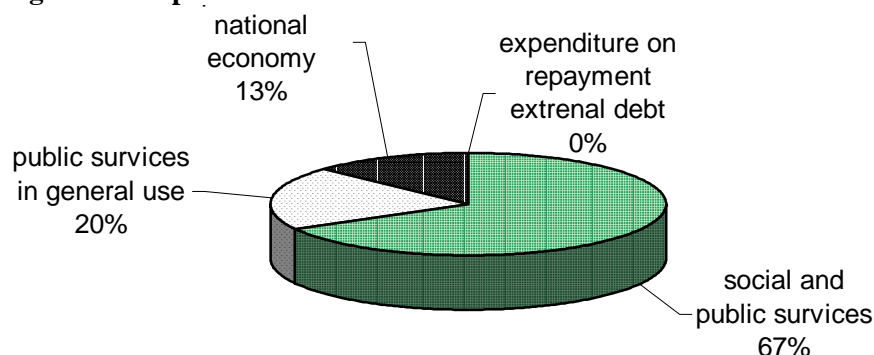
#### 4.2.2 Financial – Budget Policy Position

##### *Governmental expenditure*

**Table 4.1 Budget expenditure 2000**

mln. manat	
Expenditure	2000
1. on-budget expenditures	6347586
a) social and public services	4273612
b) public services in general use	1188833
c) expenditure on national economy	854887
d) expenditure on repayment external debt	30254
2. Expenditure extrabudgetary funds	22708200
total expenditure	29055786
deficit	448082

**Figure 4.3 Expenditure**



In 2000 the state expenditure budget totals 29056 billion manats (5588 million US Dollars), including on-budget expenditures – 6348 billion manats (1221 million US Dollars).

This budget reflects measures to foster achieving the strategic goal of the social policy – providing a high rate of the standard of living of the population corresponding the indices of developed countries.

The structure of budget expenditure sphere for 2000 confirms its social direction. Thus, as compared with 1999 with the growth of budget expenditure sphere by 64%, public and social service expenditures have grown for 79%. The portion of expenditures for social goals had increased for 5% in comparison with 1999.

In connection with the increase of wages and salaries, stipends, pensions and allowances the share of the above mentioned expenditures had increased in 2000 as compared with 1999 in overall budget expenditure sphere from 34% to 42.7%.

In 1999 the state budget expenditures for these purposes made 2009.9 billion manats per year or 167.5 billion manats monthly. The total amount for financing social sphere expenditures is

4274 billion manats. 44% of money from these funds channelled to education, 22% to public health, public social insurance, pension and social protection accordingly.

The 2000 budget stipulates allocations on expenditures of educational establishments in the sum of 1867 billion manats which is 917 billion manats (97%) higher as compared with the level of 1999. The growth in expenditures is mainly connected with the doubling of salaries and wages.

The funds envisaged for education will be directed for financing expenses of educational establishments, social support of college and university students, system of catering in pre – school institutions, boarding – schools, orphanages, as well as strengthening of technical – material base of educational establishments.

Directing money from parents' payment for catering children in pre – school establishments will allow to reduce budget expenditures for 23 billion manats.

The 2000 budget envisages allocations for public health sphere in the amount of 925 billion manats which is 423 billion manats (or 84%) over the level of 1999, including 285 billion manats salary increase.

Additional 5 billion manats were channelled for enhancing material – technical base of public health establishments.

The volume of budget allocations directed for the development of culture and mass media has increased to 90 billion manats or 80% against the level of 1999. 951 billion manats are stipulated for public social insurance, pension and social protection; that is for 349 billion manats (or 58%) over the 1999 level. In accordance with the new Law of Turkmenistan “Law on Pensions” recalculation of all previously quoted pensions has been done since January 1, 2000. The requirement of budget funds for payment of pensions summed 631 billion manats and for paying social benefits – 279 billion manats.

18.7% (1189 billion manats) of the 2000 budget sphere expenditures were envisaged for general public services. According to the adjusted 1999 plan, expenditures for this kind of services increased by 86%. The portion of maintenance costs in the budget sphere expenditures for government bodies and management will come to 18.7%.

The state budget expenditures for defense and frontier guarding accounted for 601 billion manats, for providing social order and security – 343 billion manats.

It is planned in the 2000 state budget to channel 855 billion manats for financing national economy; that makes 39 billion manats (or 5%) over the 1999 level.

286 billion manats will be allocated for the development of agricultural – industrial complex. That is 63 billion manats (or 28%) more than in 1999. Expenditures for maintenance and operation of hydro – land – reclamation systems and water system objects - 235 billion manats, for acquisition of antiepidemic veterinary preparations – 10 billion manats, for supplying pastures with water - 12 billion manats will be incurred at the expense of these funds.

Construction, reconstruction and current automobile road repairs are envisaged at the expense of road fund with the growth of 6 billion manats against the level of 1999 and make up 36 billion manats. Expenditures for centralized investments are stipulated as 225 billion manats in the 2000 year budget, which makes 10 billion manats over the 1999 level. Allocations from the budget are channeled for financing construction sites and objects included into the investment program and transient constructions.

The budget also envisages funds for financing force majeure situations summing 25 billion manats and entrepreneurship support fund – 2.5 billion manats.

The money from the State funds and complexes (22708 billion manats) are directed for coverage of expenses connected with manufacturing and selling products, works and services, as well as for investments and extinguishing internal and external debts and credits. These funds will also cover public subsidies for providing the population with free gas, water, electrical energy, salt, and flour at reduced prices at the total sum of 448.4 manats.

The marginal level of 2000 budget deficit is fixed as 448 billion manats. The sources for its coverage will be credits without interest of Central Bank of Turkmenistan. The deficit makes 2.08% to GDP and does not exceed the generally accepted norms.

### *Public borrowing*

The internal public debt of Turkmenistan represents obligations of the Government of Turkmenistan before juridical and physical persons expressed in national currency. The internal debt of Turkmenistan consists of arrears of past years and new credit or loan arrears received on the security of the Cabinet of Ministers of Turkmenistan. The internal public debt policy is defined by the President of Turkmenistan.

The Ministry of Economy and Finance of Turkmenistan is authorized by the Government to manage the internal public debt and represents its interests when concluding credit and loan contracts and agreements. The Cabinet of Ministers of Turkmenistan is not responsible for credit and loans concluded by local executive bodies without its guarantee. The public external debt of Turkmenistan represents financial obligations of the Government before foreign creditors which are subjected to coverage at the fixed dates. Decisions on attracting external credits and loans including those guaranteed by the Cabinet of Ministers of Turkmenistan are taken by the President of Turkmenistan. External credit and loan agreements between Governments are signed by the President or the authorized person.

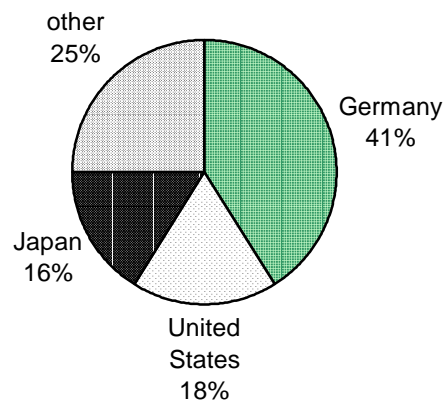
The Ministry of Economy and Finance of Turkmenistan acts as an authorized agent of the Government on public external debt management and is authorized to participate in negotiations on concluding agreements with foreign creditors and submit suggestions on the expediency of their conclusion into the Cabinet of Ministers.

The sum of 30.3 billion manats is laid in the 2000 budget expenditure part for the coverage of the external loan. As the information on public loans of Turkmenistan is not available from official source, this issue can't be fully analysed. But there is the information of the IMF prior to 1998.

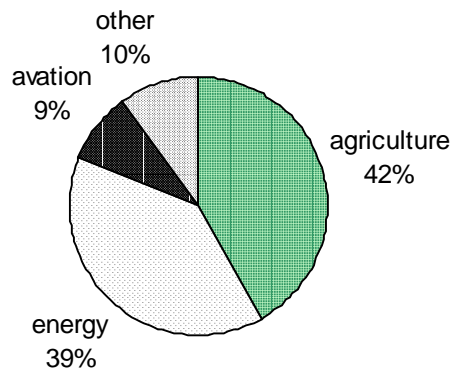
Virtually all foreign debt of Turkmenistan is owed by the public sector, mostly by off-budget ministries and state enterprises. All medium- and long-term foreign borrowing by these entities is approved and guaranteed by the government (figure enclosed). A few medium and long-term have been channelled through the CBT in order to obtain more favourable terms by using its official guarantee and collateral, while the bulk of the short-term borrowing in 1997 was also channelled through the CBT. However most foreign borrowing takes place through the Vneshekonombank, which is responsible for insuring an orderly access to international capital markets and for the timely servicing of public external debt. In the initial years of independence, public enterprises borrowed heavily on relatively short maturities (2-3 years) under government guarantees issued by line ministries. As of mid-1996, the insurance of such guarantees was made subject to clearance by the Foreign Currency Committee (FCC) and registration with the State Agency for Foreign Investment (SAFI). Moreover, key objective of Vneshekonombank's external debt management strategy has been to lengthen the maturity profile of Turkmenistan's foreign debt. As part of this effort, the average maturity of new loans rose from 5,5 years in 1996 to 7,5 in 1997. Turkmenistan has incurred some arrears on its public foreign debt, which amounted to US\$125 million at end-1995, but declined to US\$43 million at end-1996. The remaining at end-1996 stemmed mostly from administrative problems – such as disputes on which public entity should service the debt and difficulties in securing allocations from the FERF – rather than from the scarcity of foreign exchange. All external arrears were cleared by the end of 1997. Turkmenistan also received international credit rating (sovereign debt) during 1997, although these indicated rather high credit risk.

Turkmenistan's external debt stock more than doubled from US\$0.7 billion to US\$1.4 billion or from 32 percent to 74 percent of GDP in 1997. Almost two-thirds of this increase was accounted for by loans to the agricultural sector, consisting mostly (almost 90 percent) of short-term loans to the cotton sector. Credit to the energy sector accounted for 28 percent of the increase, of which about half related to disbursements under loans to upgrade the Turkmenbashi oil refinery, and most of the remainder to the financing of the gas pipeline to the Islamic Republic of Iran. Total undisbursed loan commitments (mostly for the Turkmenbashi oil refinery) were approximately US\$480 million (25 percent of GDP) at the end of 1997. Almost half of the outstanding foreign debt contracted was from German financial institutions, and 20 percent from institutions in the United States.

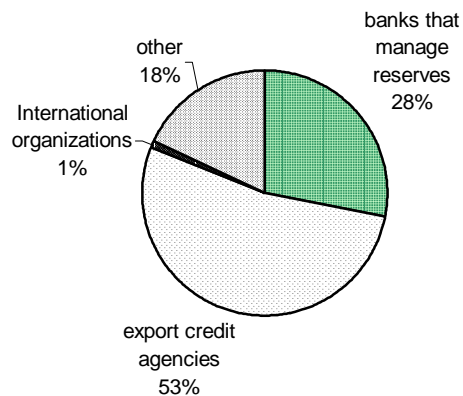
**Figure 4.4 By Country**



**Figure 4.5 By Sector**



**Figure 4.6 By Type of Lender**



Turkmenistan's foreign borrowing has been almost exclusively on non-concessional terms. In addition to an Institution Building/Technical Assistance loan (US\$25 million) approved in 1994, the WB approved an Urban Transport Project (US\$34 million) and Water Supply and Sanitation Project (US\$30 million) loans in 1997. However, reflecting slow implementation, only US\$8.5 million was disbursed under these loans by end-1997. The EBRD granted a Small and Medium Enterprises Credit (US\$35 million, with a disbursement so far US\$3 million) in 1994, provided a financing package (equity and credit) for joint-venture in textile



(US\$31 million) in 1996, and approved Highway (US\$50 million) and Port Project (US\$30 million) in 1997. However, disbursements have been limited.

Although Turkmenistan incurred relatively little short-term debt (with a maturity of less than one year) during 1995-96, as noted above, such debt increased very rapidly in 1997, with its share in Turkmenistan's outstanding debt stock rising from 15-20 percent at end-1996 to about a third at end-1997. Initially, this borrowing was to substitute for more costly cotton future contracts as a way to pre-finance the 1997 cotton crop. However, only about a third of the loan proceeds was under for this purpose, while the remainder was channelled to the market through CBT foreign exchange sales.

Reflecting the lengthened maturity profile, debt service increased only slightly in nominal terms in 1997, but sharply reduced export earnings raised the debt service ratio to 42 percent from 18 percent 1996. However, in relation to exports paid in cash plus repayments on rescheduled gas debt, the ratio declined from 75 percent in 1996 to 52 percent in 1997, principally because of the initiation of gas debt repayments. While Turkmenistan's external debt may not be excessive in relation to its foreign exchange holdings and heavy claims on other countries in the region, given the high ratio (despite the recent decline) between debt service obligations and cash receipts from exports and repayments of rescheduled gas debt, the government has had to centralize foreign exchange income from major sectors in state funds in order to ensure the timely servicing of foreign debt.

#### *Aggregate and individual tax revenue*

The 2000 Turkmenistan state budget revenues make the sum of 28608 billion manats (5502 million US Dollars ) including tax revenues and off – budget payments – 5900billion manats (1135 US Dollars).

**Table 2.2 Revenues**

	mln. manats
<b>TAX REVENUES AND OTHER PAYMENTS</b>	<b>5,899,504</b>
Individual Taxes	352,451
Profit Tax	494,601
Property Tax	123,734
Value – added Tax	1,572,884
Royalty	292,837
Excise Tax	847,953
National Insurance Contributions	1,160,159
Restructured Debts Earnings	459,329
Foreign Exchange Tax	208,000
State Short – term Pension Savings Investment Earnings	112,646
Other Taxes, Levies and Duties	274,910
<b>Extrabudgetary funds</b>	<b>22,708,200</b>
Total budget revenue	28,607,704

The sum of tax revenues and other payments to the budget has increased as compared with the approved 1999 budget by 2298 billion manats or by 64%.

The growth of main revenues to the State budget, such as value – added tax, profit tax, royalty is connected first and foremost with the increase of output developments and products, works and services sale as well as export supplies. These indices, as well as increase of manufacturing efficiency and reducing production cost, create prerequisites for the growth of major financial index – profit – which is the source of budget revenues formation and finds of stimulating character enterprises (accumulation and consumption funds). The planning tax sums are defined with regard for adopted decisions on tax benefits.

Excise revenues have been planned by rapid rates at the expense of production output increase and import of excise – subject commodities; they made 848 billion manats in 2000 against 377.8 billion manats in the 1999 plan. Due to the doubling of wages and salaries from

December 1, 1999, earnings from individual taxes were planned as 352.4 billion manats with the growth by 76% as compare with 1999.

For the same reason earnings of public insurance allocations have been increased and made up 1160.2 billion manats.

In 2000 budget one third of major taxes and payments into the budget falls on oil and gas enterprises. The total amount of tax earnings from energy complex is 1,78 trillion manats which is 56% or 0.6 trillion manats over the 1999 plan. The 2000 budget envisages the total amount of public and complexes funds of 22708 billion manats; energy complex – 10430 billion manats (its portion in the bulk of public and complexes funds accounts for 46%), agro - industrial complex – 3486 billion manats and 15% respectively, transport complex – 2271 billion manats and 10%.

They are estimated proceeding from the production output and products sale including export sales which are envisaged for 2000 in the program “Strategy of Social – Economic Transformations in Turkmenistan for the Period to the year of 2010”.

#### *Foreign Aid*

The IMF has provided substantial technical assistance and training to Turkmenistan in recent years. This encompassed all major macroeconomic areas, including technical as well as policy advice. Missions from The Monetary and exchange Affairs Department (MAE), the Fiscal Affairs Department (FAD), and the Statistics Department (STA) of the IMF have assisted the government in strengthening monetary and fiscal institutions, enhancing the effectiveness of the monetary, exchange, and fiscal management, and in building a modern statistical data base. The Fund has stationed a Resident representative in Ashgabat since October 1993. FAD provided a resident advisor to the Ministry Economy and Finance (MEF) during January 1994 – February 1997, STA has given technical assistance (through its regional advisor) to the CBT during July 1996 – July 1997 on the compilation of the balance of payments, and MAE has provided an advisor to the Central Bank of Turkmenistan (CBT) since February 1994.

Fund technical assistance continued in several areas in 1997. Three missions from the European II Department (EU2) assisted the government in the formulation of macroeconomic policies and the preparation of macroeconomic framework. An FAD mission in August/September provided advice on fiscal management and extension of budget coverage. This contributed to improvements in budget preparation, evidenced by the much greater documentation accompanying the 1998 budget, which was also provided on the basis of an economic classification in additional functional classification.

In October, an MAE mission advised the CBT on the strengthening of monetary policy instruments and the foreign exchange system, as well as on the introduction of a book-entry system for treasury bills in preparation for the introduction of the Treasury bill auctions. In December, in a follow-up mission, an MAE consultant provided further technical assistance to research Department of the CBT in monetary analysis, financial programming, and on improvements to the CBT’s monthly bulletin.

In April 1998, an STA consultant provided technical assistance to Turkmenstat-prognos on national accounts. Government officials continue to participate in IMF Institute course and seminars, held at the Joint Vienna Institute and IMF headquarters. In 1997, 19 officials from Turkmenistan attended courses at the Joint Vienna Institute, covering a wide range of economic, financial, and statistical issues, and one official benefited from the Japan/IMF Scholarship Program. The IMF Institute conducted a regional seminar in Ashgabat on financial programming in April/May 1998.

### **4.3 Technical Assistance in Fiscal Affairs**

Turkmenistan joined the World Bank in 1992. Bank’s lending program was designed to help implement critical structural reforms trough the provision of technical assistance and

institution building. The Bank has also been active in providing technical assistance in the areas of debt management, energy exports, public expenditures, health and agriculture sectors, international accounting standards implementation, preparation of the National Environmental Action Program (NEAP) and taxation. The Bank's Board discussed the new Country Assistance Strategy (CAS) in January 2001. The CAS identifies five key priorities for the future work: strengthening public resource management, improving health and social services, developing an efficient rural economy, supporting private sector development, and protecting the environment. In the initial phase of the CAS, the Bank will help Turkmenistan primarily through non-lending analytic support. In particular, the Bank will continue its non-lending analytic support program to strengthen economic management capacity within the government, increase transparency of public resource management, improve living standards monitoring and social assistance targeting mechanisms. Two ongoing projects – the US\$ 25 million Institution Building Technical Assistance Project and the US\$30 million Water Supply and Sanitation Project – will continue to be implemented. In light of Turkmenistan's limited progress on basic budget and debt management, and other issues including a Negative Pledge Clause violation, it is likely to be extremely difficult for the Bank to extend new lending in the near term. However, if these issues are addressed, the Bank would go forward with a small loan program over three years for urgent priorities in health, irrigation and the rural economy.

The World Bank approved two loans totalling US\$ 64.5 million to Turkmenistan for Urban Transport Project (US\$34.2 million) and a Water Supply and Sanitation Project (US\$ 30.3 million). The loans will help finance improvements in urban transport in Ashgabat, Mary, and Chardjou, and in water supply systems and sanitation in the Dashoguz Velayt, the region of Turkmenistan most severely affected by the environmental crisis of the Aral Sea basin.

During the last five years, the IMF and other international financial institutions have provided extensive advice to Turkmenistan authorities on how to reform their tax system. In general, the advice has concentrated on a review of those taxes, and the taxation of those sectors, where a significant expansion of the revenue capacity would be practicable and where changes in structure of taxation could have most significant effect on the economy. With regards to taxes, Fund advice has concentrated primarily on the VAT, the profits tax, and the mineral resource tax, the personal income tax, excises and customs duties. Regarding specific sectors, gas has traditionally been the most important, accounting for almost half of the GDP and two-thirds of exports; whole cotton has been the second most. Furthermore, the gas industry, even after a significant contraction of output following the breakdown of the Soviet Union, contributed about 10 percent of value-added tax.

#### **4.3.1 Tax Policy**

The tax policy of Turkmenistan as an independent state started its formation since 1992. Prior to this time on the territory of Turkmenistan the former USSR tax legislature was functioning. Such taxes as turnover tax, drawing free remainder of profit, property tax, land tax, fixed payments (in energy sector), etc. were used. These taxes were characterized by all the peculiarities of that period and influence of Soviet (communist) ideology. For example, if we consider the turnover tax, it was distinguished by such different from market economy features as selection in use and differential rates depending on the branch. Unlike value-added tax, this tax was not used to all commodities, works and services but was used only to those commodities which were very profitable due to the government price policy.

The same features were characteristic of such tax as withdrawing free remainder of profit, which could be only conditionally called "tax" in the generally accepted sense. Its estimate came to the point that all the profit of the enterprise exceeding the planned articles of its use was drawn completely. All these shortcomings and defects of the socialist mentality were abolished in the new tax legislature of independent neutral Turkmenistan.

For the purpose of improvement of tax system, its administration and control for the observance of tax legislature, the tax inspectorate of Turkmenistan was set up. Resting up on this public institution of management, the tax system of Turkmenistan was formed. It is quite

simple and in many aspects meets the requirements made to tax systems in countries with market economy. The section of taxpayers, the sphere of tax application, taxable base of established taxes have been expanded and new forms of direct and indirect taxation were introduced. This refers to the change of turnover tax for value – added tax and withdrawing free remainder of profit for profit tax.

The Tax system in Turkmenistan, though in line with the world practice and principles, has its peculiarities in defining tax-paying objects, tax rates and tax exemptions. The system is under regular adjustment to ensure the development of investment and business activity.

In order to increase the level of agricultural production the farmers are exempted from the VAT and partially from the tax on profit. Land lessees engaged in fruit and vegetables growing are exempted from paying 8% to the Government Budget (starting with the crop of 1999) and payments to the local budget amount to 1000 manat per hectare of the leased land.

For individuals without setting legal entities the tax system is much simpler. The Main Tax Inspectorate and its branches in velayats pursue the tax policy in Turkmenistan. There are 68 tax agencies of the regional level in the country. With the aim of further improvement of tax legislation President of Turkmenistan issued a decree on establishment of the Tax Code of Turkmenistan – a document having the power of the Tax law. The importance of this document is difficult to overvalue.

The Committee is working together with Medjlis (Parliament) of Turkmenistan and experts of European Community. They are finalizing the new Tax code of Turkmenistan, which is supposed to be approved in the spring session. From the point of view IMF - Turkmenistan's taxation policy and administration retains many of features of former Soviet era. The bulk of revenue is collected from about 13000 entities, mostly publicly-owned enterprise and entities, as well as foreign exchange surrender arrangements that impose punitive tax rates on key commodities, notably gas and cotton. Not surprisingly, the small emerging private sector – especially in trade and agriculture – is proving difficult to tax under this system and any acceleration in the pace of transaction may see a worsening of these problems unless the tax system is reformed to take better account of the needs of a market oriented private sector.

The current tax system is characterized by numerous exemptions within the tax base and multiple tax rates applied across different economic sectors and agents operating in Turkmenistan. A key reform objective should be to dismantle the current system of punitive taxation of energy and cotton, and bring the tax system more in line with international practices. To accomplish these goals, the tax system adopted should rely on well-defined, broad-based taxes, such as the personal income taxes and the VAT, supplemented by selective excise tax on items with inelastic demand. In each case, the aim should be to utilize the broad bases to ensure that average and marginal tax rates are consistent with achieving realistic fiscal balance and income redistribution targets. In this task, it is important to resist either imposing punitive taxes on specific activities, particularly exports and capital accumulation, or providing unnecessary generous incentives to particular activities, including foreign investment, or sectors, such as agriculture or services.

An initial task should be to make the present system more transparent, less complex and equitable across industries and products. This should not only serve to improve national resource allocation but also simplify tax administration. Some of the key strategic measures that need to be addressed include the following:

- a comprehensive Tax Code must be adopted by the parliament as soon as possible. The Code should incorporate all aspects of the tax policy and administration, including the operation of foreign oil and gas operators under the present petroleum law, and draw on the Codes now put in place in other BRO countries with assistance from international institutions and donors;
- in the case of other extrabudgetary funds, this would involve an end to the present enterprise transfers of financial resources (i.e. from profit – making to loss-making firms) Instead, the various enterprises contributing to these funds should operate on commercial basis;

- a high priority must be placed on bolstering the VAT, given the likely increase in difficulties administering income taxes on private enterprises during the transition period;
- plans should be developed for a move towards a destinations-based VAT;
- the excise duty system needs to be revised. The new system should: (a)remove all protectionist biases toward domestic producers; (b)rationalize existing rates to eliminate anomalies; (b)increase rates on certain price-inelastic items where additional revenue capacity appears to exist (particularly oil products, which are still sold well below the world price on the domestic market) and (d)eliminate low yielding items which simply add to tax administration difficulties;
- the tax exemption of the agricultural sector should be abolished. Measures to boost the sector's taxation include a possible increase in the fledgling system of land tax using cadastral surveys to discriminate those plots with the largest capacity to pay;
- the tax administration needs to be strengthened and reorganized along functional lines (drawing together similar tax functions such as collections, audit, investigation, taxpayer services, computerization and finance and accounting). Whilst the proposed Tax Code would provide basic authority for a private sector oriented tax system, technical assistance will be needed to allow the Tax Office to meet its obligations during the transition process;
- customs administration on revenue collection must be improved with increased emphasis on inspection, valuation and enforcement procedures.

At present both the state and local taxes and collections are established in Turkmenistan:

The following are rated as state taxes and collections:

- value – added tax
- profit tax
- property tax
- excises
- stock transfer tax
- royalty
- motor vehicle tax
- tax on transfer of rights to prospect and produce minerals
- state duty
- customs duty
- income tax
- license payments collected from entrepreneurs
- consulate collection

The following are local taxes and collections:

- advertisement tax
- collection from citizens for policing and organization of public services and amenities
- tax on reselling cars and computer equipment
- collection from dog owners
- collection on parking area owners

Every tax has its own fiscal role in the formation of the revenue part of the State Budget of Turkmenistan. The share of budget receipts supplied by one of the main fiscal revenue sources remains unchangeable from year to year, as a rule, and does not have big deviations. You can see these tendencies from the given tables.

**Table 4.2 Tax revenue**

billion manats

The name of the basic taxes	1999 year			2000 year		
	The planned sum of receipt of the state budget	Percentage ratio to tax receipts	Actual receipt of the sum of the taxes	The planned sum of receipt of the state budget	Percentage ratio to tax receipts	Actual receipt of the sum of the taxes
Value added tax	946,3	30,3%	1022,9	1622,9	29,8	1744,5
Profit tax	422,3	13,5%	723,3	644,6	11,8	702,8
Royalty	201,4	6,4%	67,4	292,8	5,4	373,9
Excise	377,8	12,1%	181,3	847,9	15,6	779,3
Social insurance	756,0	24,2	728,9	1160,1	21,3	1237,4
Property tax	74,8	2,4	88,1	129,3	2,4	102,4
Income tax	190,6	6,1	125,0	370,4	6,8	433,4
Tax from vehicle owner	31,0	1,0	37,2	23,9	0,4	23,4
Patent payment	9,6	0,3	34,1	32,0	0,7	46,7
Custom duty and collection	28,0	1,0	63,7	155,1	2,8	110,2
Other	85,5	2,7	343,1	167,6	3,0	294,9
Total	3123,0	100	3415,0	5446,6	100	5848,9

Thus, if in 1999 the share of the value – added tax in total budget fiscal receipts made 30.3%, in 2000 this ratio made 29.8%. As for the profit tax this ratio constituted 13.5% and 11.8%, excises – 12.1% and 15.6%. The given above statistical analysis of these indices for the last five years did not show significant deviations of the percentage ratio of the amount of this or that tax collection to the total fiscal receipts of the corresponding year.

#### *Taxation of Foreign Investments*

The Law of Turkmenistan “On Foreign Investments” defines legal, economic and organizational basis of foreign investments operating on the territory of Turkmenistan and is directed to the attraction and efficient use of foreign advanced technologies, management experience, material and financial resources in the economy and on the formation of the economy of open type.

The Law stipulates foreign investments as all types of property and intellectual values invested by foreign investors in the objects of entrepreneurial and other activities on the territory of Turkmenistan. Foreign juridical entities (including international organizations and associations, as well as foreign physical persons – foreign citizens and persons without citizenship) can act as foreign investors.

Any kind of enterprise created in accordance with the Turkmenistan legislature is acknowledged as an enterprise with foreign investments if in average within a year a foreign investor owns not less than 20% of the declared authorized capital or part the absolute size of which is fixed by the Cabinet of Ministers. The effect of this Law is spread on this kind of enterprise.

To create a favourable investment climate in Turkmenistan the Legislature envisages various benefits and privileges. The property brought to Turkmenistan as a contribution to the authorized fund of juridical entities with a foreign participation, as well as the property for own material production is customs – duty exempt and is not subject for tax on import.

The property brought to Turkmenistan by foreign workers of juridical entities with foreign participation for their own needs is customs - duty exempt. Juridical entities with foreign participation with a 30% of foreign investments in hard currency in their authorized fund are eligible ( on the basis of certificate issued by the authorized body) to export own manufactured products (works, services) without a license in the volume adequate to the foreign investor's share in the authorized fund.

Juridical entities with a foreign participation are eligible to import products (works, services) for their economic activities without a license.

The earnings in hard currency earned by the juridical entities with a foreign participation from the export of their own products are retained by them after paying all taxes and collections in accordance with the Turkmenistan legislature. Juridical entities with a foreign participation pay profit tax at the rates stipulated by the Turkmenistan legislature.

For the period of recoupment of original capital investment a foreign investor who contributed 30% of hard currency to the authorized fund of the enterprise, is tax – exempt on dividends and the enterprise is tax – exempt on profit tax. An enterprise with a foreign participation which directs profit (after recoupment of original capital investment) for reinvestment, is tax exempt in that part which was channelled for reinvestment.

Juridical entities with a foreign participation can enjoy other benefits provided by the Cabinet of Ministers. The audit of tax payments, financial, economic activities is performed by the state fiscal bodies and authorized organizations of Turkmenistan.

Foreign investments in Turkmenistan are not subjected to nationalization and requisition. The property of the investor can be confiscated only in case of illegal actions done by him and only in legal form.

A foreign investor and foreign workers are guaranteed the right of their property transfer abroad. The order of transferring hard currency, payment documents, securities over the border is regulated by the Turkmenistan Law on Currency Regulation.

#### *Taxation in Agricultural Sector*

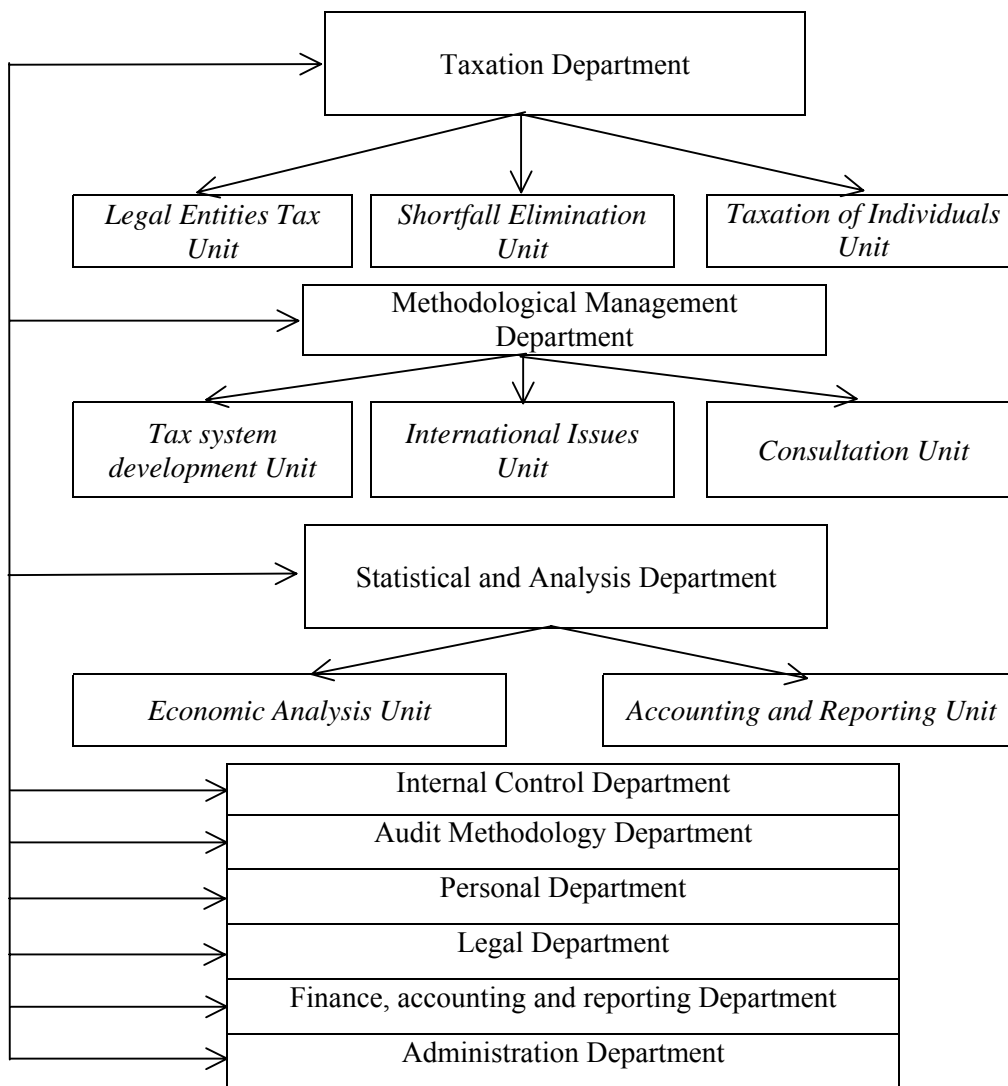
To render a full support of the agricultural sector of the country, to provide food supply, i.e. reduction of import of foreign agricultural products, agricultural enterprises in Turkmenistan are almost tax – exempt from all taxes. The payment for land is 1thousand manats for a hectar per year which is symbolic.

#### **4.3.2. Tax and Customs Administration**

The tax and general administration of the taxation system in Turkmenistan is performed by a number of state bodies. These include notary offices and courts responsible for the correct calculation and timely payment of the state duty; customs bodies which are in charge of customs duty payments, as well as excises and value – added tax which are collected when commodities cross the customs border of Turkmenistan and a number of other state bodies. A special place is granted to fiscal bodies, which are responsible in general for the collection of all taxes, levies and duties (excluding customs duty).

The tax administration – which employs about 1500 persons, most at the local government level – has made slow progress in implementing changes necessary to meet the needs of the market economy. The chart below shows the structure of the administration of the State Taxation Office.

**Figure 4.7 State Tax Inspectorate Structure**



Although the office was restructured in 1993 following Fund advice to introduce a functional orientation, the office maintains features of the traditional Soviet organization, including distinctions between juridical and physical personnel, which are continuing to lose significance given the growing number of small enterprises and individual entrepreneurs. Moreover, services to the emerging private sector taxpayers complaints division forming part of the Internal Control department, which detaches this important activity from the main collections department.

A tax code is being drafted in consultation with the parliament and is expected to include a comprehensive description of the rights and responsibilities of the both taxpayers and the tax office. The code, which is scheduled for introduction before the end of 2001, will include the provision that taxpayers register and undertake self-assessment of tax liabilities, and to provide supporting information on request. It will also provide taxpayer education and information and specify the right of the Tax Office to undertake audits, receive access bank accounts, and impose penalties.

The Tax office does not maintain a separate large taxpayer unit as implemented in many other BRO countries; however the total number of taxpayers (approximately 35000) is small and there is a natural concentration on the oil and gas industries which have historically been the largest tax contributors. The office has implemented a comprehensive registration system – in conjunction with the State Agency for Foreign Investment – and 14 digit TIN covering



all taxpayers. However, the operational significance of these improvements on collections is weakened by the pace of computerization in the Tax Office. The penalty system is broadly based and potentially over-severe – with very high interest rates applied for late-payers – but a periodical forgiveness for areas and/or penalties has served to reduce the impact of these arrangements.

The customs Administrations retains a primary focus on non - revenue raising activities, including border inspection and drug/crime detection. Over 1300 persons are employed to man over 50 border posts often in very remote and difficult – to –patrol areas. Recent progress has been made in controlling Turkmenistan’s considerable transit traffic, including additional protected parking and storehouses, and improved reporting systems.

The State Tax Inspectorate of Turkmenistan composes the single system of bodies carrying out control over the tax legislature observance. The State Tax inspectorate of Turkmenistan includes The Main State tax Inspectorate of Turkmenistan, state tax inspectorates in velayats, etraps, cities and etraps in cities. The Main State tax Inspectorate is subordinate directly to the President of Turkmenistan.

The main objective of the state tax inspectorate is control over:

- observance of fiscal legislature, correct calculation, full and timely payments of state taxes and other payments to the budget;

- execution of orders from the supreme power bodies and administration on correct calculation, full and timely payments directed in accordance with the Turkmenistan legislature to off budget, pension, social insurance and other funds.

The main tax inspectorate of Turkmenistan, state tax inspectorates in velayats, etraps, cities and etraps in cities are given the right:

- to establish the order of fiscal registration;

- to hold auditing of payments, account books, journals, reports, plans, estimates, declarations and other documentation connected with calculation and tax payments, other compulsory payments to the budget and off budget funds, as well as receive all necessary explanations, information on issues emerging during auditing in ministries, associations, organizations and agencies irrespective of forms of property including foreign juridical entities and joint ventures, organizations and associations with the participation of juridical entities of Turkmenistan and foreign states and citizens, citizens of Turkmenistan, foreign citizens and persons without citizenship;

- to obtain necessary information, as well as documents and their copies of the activities of enterprises and citizens of other enterprises including banks and other financial – credit agencies under auditing. In line with the enquiries of fiscal bodies, the banks of Turkmenistan are obliged to submit them information on operations with settlement and other accounts and on the availability of money on the accounts of juridical entities and operations on bank accounts of Turkmenistan citizens;

when performing their duty to explore any kind of storehouses and warehouses, lodgings of enterprises and citizens which are used for obtaining profits (incomes) or are connected with the maintenance of objects of taxation including booths, parking lots, etc;

- to give heads of organizations, other government officials of the enterprises under auditing and citizens, compulsory notifications on eliminating violations in the taxation legislature, other compulsory payments to the budget or off budget funds and to control their implementation;

- to withdraw documents indicative of concealment or understating of the profit (income) or concealment of other objects from taxation;

- to suspend operations of enterprises and citizens on settlement and other accounts in banks and other financial credit institutions in case of non – access to auditing, refusal or untimely submitting to state fiscal inspectorates accounting documentation, reports, balances, declarations and other documents connected with calculation and tax payment, other compulsory payments to the budget and off budget funds;

to apply financial sanctions fixed for the violation of tax legislature to enterprises and citizens;

to enforce amounts of tax and other compulsory payments to the budget or off budget funds, as well as amounts of financial sanctions not paid in fixed terms. For the whole period of delinquent tax, default surcharge is charged at the rate of 0.03% of unpaid sum of payment for every day of tax arrears;

to withhold to the budget and off budget funds the amounts of taxes and other compulsory payments, as well as financial and other sanctions, which were not paid timely and to direct punishment on the taxpayers' property;

to give order to authorized bodies on arresting the property of insolvent juridical entities and physical persons for the further punishment of this property;

to make claims in courts against enterprises, institutions, organizations and citizens;

on liquidation of an enterprise irrespective of forms of property basing on established legal acts of Turkmenistan;

to acknowledge invalid registration of the enterprise in case of violation of the established order of creating the enterprise or discrepancy of promotional documents to the requirements of legislature and on withholding profits gained in these cases;

on withholding profits gained either by the enterprise or the entrepreneur from performing

the activities without a registration in the established order or activity which is forbidden or requires special permission (license), when this permission is not available;

on cessation of entrepreneurial activities by citizens in case of repeated or flagrant violation of legislature;

on acknowledgement of transactions invalid and withholding all the profit earned into the state revenues;

to make up protocols and consider cases of administrative violations connected with the tax payment and other compulsory payments and impose penalties and other administrative punishments in cases and in order established by Turkmenistan legislature.

The bodies of State fiscal inspectorate of Turkmenistan are under the obligation:

to observe the Turkmenistan legislature, rights and interests of enterprises and citizens protected by law;

to provide a complete and timely registration of taxpayers and objects of taxation, as well as control over the correct calculation, full and timely tax and other payments into the budget and off budget funds;

to apply and withdraw timely financial and other sanctions and default surcharge;

to transfer materials on violations subjected to penal responsibility to authorized bodies;

to provide registration and reporting of tax and other compulsory revenues into the budget and off budget funds, as well as registration, evaluation and sale of confiscated property, property in abeyance, property transferred to the state by right of succession and treasures;

to use the information on taxpayers' incomes exclusively in official purposes, to keep commercial information and information on hidden treasures a secret;

to study, summarize and analyse the experience of practical application of tax legislature (including experience in other countries) and submit proposals on its improvement, participate in the development of legal acts on this issue;

to publish methodical instructions on issues referring to their competence, as well as manuals, brochures and posters, publish consultations, comments and explanations on these issues in mass media.

At present the tax inspectorate of Turkmenistan is working over the measures aimed at the enhancement of the system of tax administering and improvement of the process of taxation. Recently the fiscal system of Turkmenistan numbered about 15 types of local taxes and collections. Some of them did not bring a visible contribution to the budget revenues. A

proposal was submitted to the Government consideration on their reduction. As a result only 5 local taxes and collections were left and they provide stable revenues into the budget.

The system of application of such major taxes as value – added tax, profit tax, excises and royalty have also been reconsidered. As for the value – added tax, it was suggested and further on adopted by the Government to impose this tax on commodities imported to Turkmenistan. Prior to the middle of last year the value – added tax was not collected from the imported goods. Introduction of this tax on the border not only gave additional receipts into the budget but also considerably enhanced control over the further sales of goods on the internal market.

Another innovation for the value – added tax was establishing obligation of the enterprises concluding contracts with foreign juridical entities to withhold the value – added tax from the amounts of payments on works and services sold on the territory of Turkmenistan.

Additional tax exemptions were introduced into the value – added tax, which stimulate production activity and, in particular, manufacturing new goods, previously not produced in Turkmenistan; reducing production costs and increase of production volume.

Besides that, for juridical entities with a small number of workers, a simplified taxation system was introduced which presupposed payment of a single profit tax instead of property tax, value – added tax and profit tax.

After analysing the activity of gambling – houses, the tax inspectorate submitted a proposal to impose fixed profit tax rates for such business depending on the number of gambling tables, etc. These suggestions were also approved by the Government reflected in the changes in the tax legislature in its profit tax part.

An approach to the system of taxation on activities on natural resource extraction had been reviewed fundamentally. Before the royalty rate was applied to the taxation base as earnings gained from sales of natural resources. In line with the suggestions of the fiscal inspectorate, the profit itself became the fiscal base for the tax and thus, the royalty turned into the excess profits tax in mineral resource extracting industry.

A few years ago an excessively flung network of excises on imported goods existed in Turkmenistan. Sometimes these were goods, which could not be subject to taxation, e.g. baby food and other essential commodities. After the suggestions submitted to the Cabinet of Ministers the list of excised goods had been considerably reduced and the system of customs duties had been worked out.

For the purpose of arranging an orderly transfer of commodities over the customs border and stimulating domestic manufacturers, the customs duty was introduced in the year of 2000. The object of customs duty is the customs cost of the commodity. The customs duty payers are juridical entities and physical persons, both residents and non-residents of Turkmenistan. The customs duty cost is pointed out in the customs declaration either by a person who imports (exports) these goods or by a person who declares on the basis of agreement. The documents confirming the cost of goods are produced to the customs body together with the customs declaration.

The customs cost of the goods is pointed out in manats with the account of recalculation of hard currency valued at the official rate fixed by the Central Bank of Turkmenistan on the day of customs clearance. The list of goods subject to customs duty and their rates are approved by the Cabinet of Ministers of Turkmenistan.

The customs business is performed by customs bodies of Turkmenistan which form the single system which comprises:

- The State Customs House of Turkmenistan;
- customs houses;
- customs posts;
- customs points and other structural units formed by the State Customs House of Turkmenistan.

The main objectives and responsibilities of the customs bodies are as follows:

- provision of observing legal acts on customs;
- provision within their competence of protecting economic security of Turkmenistan;

development and application of the customs – tariff mechanism, control for observing the system of permission for import and export of commodities and other objects, withholding the customs duty, taxes and customs collections;

performing the customs control and its official registration, creating conditions for promoting the faster transfer of commodities and other things, passengers over the customs border of Turkmenistan;

execution of international obligations of Turkmenistan referring to the customs business, etc. Imposing customs duty on commodities and other things transferred over the customs border of Turkmenistan is carried out in accordance with the Turkmenistan legislature.

The rates of customs duty are fixed by the Cabinet of Ministers of Turkmenistan. The order of withholding customs duties is defined by the State Customs House of Turkmenistan. The basis for calculating customs payments is the customs cost of goods and other things.

### **4.3.3 State Budget and Expenditures Management**

The state budget of Turkmenistan as the tool for economic management of financial resources of the country is being worked out in line with the Law of Turkmenistan “ On Budget System” which determines new approaches of budget formation. As from 1997 its structure is being improved according to international standards.

This Law fixes legal foundations of organizing management and operating budget system, regulates interrelations between budgets of all levels.

The budget – financial policy pursued by the supreme bodies of state power and management of Turkmenistan, fiscal, price, monetary and currency policy is directed at the provision of state budget balance.

The single budget system of Turkmenistan is composed of State Budget of Turkmenistan and other financial resources of the country, its formation and use are defined by the legislature of Turkmenistan.

The State budget of Turkmenistan is the main fund of money resources which includes stock of centralized stock and local budgets.

The State budget of Turkmenistan consists of funds of special target funds and financial resources of economic entities based on state forms of property. Turkmenistan State budget revenues are comprised within one financial year from tax, collections and other compulsory payments by physical and juridical persons, receipts from other sources stipulated by law and other rules and regulations of the legislature of Turkmenistan.

Turkmenistan State budget revenues are distributed between centralized budget, budgets of velayats and Ashgabat in accordance with the Law on The State Budget of Turkmenistan adopted for the financial year.

The budget expenditures consist of current expenditures providing functioning state power bodies and management and local self - governing and expenditures for financing investment and innovation activity.

The Ministry of Economy and Finance of Turkmenistan organizes preparation and compiling of the State draft budget of Turkmenistan. 5 months prior to the beginning of the financial year the Ministry of Economy and Finance informs the Boards of specialized target funds, ministries and agencies, other bodies of state power and management, mayors of velayats, mayor of Ashgabat on the beginning of preparation of the budget draft and the main guidelines of the economic development of the country, priorities of branches of national economy development and administrative – territorial units, provides with methodical recommendations on building up the draft budget and informs about preliminary limits of allocations for their maintenance and execution of target programs.

Prior to 4 months of the beginning of the financial year Ministries and agencies, Boards of specialized target funds, other bodies of state power and management, khyakims of velayats, mayor of Ashgabat submit drafts of summary financial plans and estimates in accordance with the recommendations from the Min. of Economy and Fin.

The Min. of Ec. and Fin. makes an economic assessment and adjusts the submitted drafts of summary financial plans and estimates. The Min of Ec. and Fin. together with the Central

Bank of Turkmenistan and other interested bodies of state management analyzes macroeconomic situation, develops financial strategy for the financial year, estimates real sources of revenues and gives a resolution on all articles of the budget.

Prior to 2 years before the beginning of the financial year The Min. of Ec. and Fin. submits the State budget draft with a notification to the Cabinet of Ministers of Turkmenistan for consideration and informs ministries and agencies, other state power bodies, leaders of velayats and Mayor of Ashgabat of appropriate indices stipulated for them by the State budget draft.

The Cabinet of Ministers of Turkmenistan discusses the State budget draft and submits it to the President of Turkmenistan. Prior to one month of the beginning of the financial year the President of Turkmenistan submits to the Medjlis of Turkmenistan (Parliament) the State budget draft for consideration and adoption.

The submitted State budget draft is accompanied by the notification with evaluation of the prior and current financial years performance and must contain the following materials: the draft of the Law of Turkmenistan on the State budget of Turkmenistan for the financial year;

- report of Minister of Economy and Finances of Turkmenistan on main theses of the draft and economic position of the country;
- information on revenues and expenditures of the State budget, centralized budget, local budgets of velayats and the city of Ashgabat;
- information on state loans;
- summary financial plans of ministries and agencies, specialized targeted funds.

The Medjlis of Turkmenistan is authorized to introduce amendments on cutbacks or increasing of expenditures into the draft only in case the sources of financing are available. The Medjlis of Turkmenistan approves the Law on the State Budget of Turkmenistan for the financial year containing the following items:

- total amounts of The State budget revenues and expenditures;
- marginal sizes of state internal and external debts and State budget deficit. The State budget deficit can be allowed only in centralized budget;
- sources of financing deficit;
- total amounts of centralized budget revenues and expenditures with distinguishing the main sources of revenues and directions of expenditures;
- payments to centralized budget and allocations from centralized budget to ministries and agencies;
- total budget volumes of velayats and Ashgabat and sizes of subsidies and subventions;
- standards of allocations from centralized budget to the budgets of velayats and Ashgabat;
- list of protected articles when introducing the regime of reducing expenditures;

The Law on the State Budget of Turkmenistan comes into force from the beginning of a fiscal year. If the Law on the State Budget of Turkmenistan for the fiscal year is not approved prior to the beginning of a fiscal year, government and management bodies, local executive and managerial authorities are authorized to spend amounts totaling 1/12 of the previous year volume during every month prior to the adoption of the Law.

After the Law on State Budget for the fiscal year is approved, khyakims of velayats and Ashgabat adopt corresponding decrees on velayats and Ashgabat budgets. The Cabinet of Ministers of Turkmenistan organizes the outturn of the State budget through the Ministry of Economy and Finance, ministries and agencies, other state management bodies, local executive power and local self – governing bodies. The bank services of treasury accounts are provided by authorized banks.

The cash execution of the centralized and local budgets is carried out by the Treasury Department of the Ministry of Economy and Finance, ministries and agencies, local executive and self – governing bodies. The centralized and local budgets are executed in the order outlined by the Rules and Regulations for budgeting and execution of the State Budget of Turkmenistan.

The budget expenditures are performed by ministries and agencies within the boundaries of norms and limits for every type of expenditures. The balance of unused budget funds for the end of fiscal year is included into the appropriate budget revenues.

During a fiscal year the President of Turkmenistan is authorized to introduce changes into the State Budget of Turkmenistan within the limits of the deficit of the budget approved by the Law. The mayors of the velayats and Ashgabat are authorized to specify the indices of local budgets under the condition of preserving balancing of their revenues and expenditures.

The revenues earned additionally when executing the centralized budget, as well as amounts of exceeding revenues over expenditures formed on the outcome of the fiscal year, are used by the Cabinet of Ministers of Turkmenistan for financing measures on economic and social development.

Revenues earned additionally when executing local budgets, as well as amounts of exceeding revenues over expenditures formed on the outcome of the fiscal year, remain at the disposal of local executive authorities and local self – governing bodies.

In case in the process of centralized budget execution during two years a positive balance is preserved on treasury accounts, then not less than 50% of these funds are directed at withdrawing securities out of circulation or repayment of credits.

The Ministry of Economy and Finance submits for consideration to the Cabinet of Ministers of Turkmenistan overview of the State Budget execution by the 1-st August of every fiscal year.

Budget financed organizations and agencies submit reports on expenditures estimate execution on a quarterly basis in the order fixed by the Rules and Regulations of budgeting and execution of the State Budget of Turkmenistan.

Ministries and agencies submit to the Ministry of Economy and Finance of Turkmenistan summarized accounting and financial reports on a quarterly basis; economic entities with a public form of property and subordinate to the local executive bodies, submit reports on their economic activities to the local economic and financial bodies on a quarterly basis.

Ministry of Economy and Finance of Turkmenistan prepares the report on the State Budget Execution on the outcome of the fiscal year and the report on the results of financial activities of economic entities with a public form of property and by April 30 of the year following after the accounting period of the fiscal year submits them to the Cabinet of Ministers.

The President of Turkmenistan submits the report on the State budget execution for the previous fiscal year to the Medjlis of Turkmenistan a month prior to the beginning of the new fiscal year.

The report on the State budget execution is approved by the Medjlis of Turkmenistan. The mayors of velayats and Ashgabat approve reports on local budget execution accordingly. For the execution of the State budget of Turkmenistan the Ministry of Economy and Finance does the following:

- develops Rules and Regulations of budgeting and execution of the State budget of Turkmenistan;
- develops and approves the structure and composition of budget classification;
- holds accounting of government operations and state plan of accounts of accountancy;
- prepares proposals on budget expenditure cutbacks;
- elaborates measures on raising the efficiency of budget expenditures
- controls the state of treasury accounts of the centralized budget;
- introduces in concordance with the Cabinet of Ministers of Turkmenistan the mechanism of expenditure cutbacks in case coming revenues are not sufficient for the expenditure provision of the State budget of Turkmenistan.

For the purpose of efficient public expenditure management under market conditions, along with control and budget management and the size of deficit for the time of budget execution the Treasury Department was set up.

The Treasury Department of the Ministry of Economy and Finance is an independent structural division of the Ministry of Economy and Finance; the main objectives of its activity are: execution of the state budget policy, increasing of the efficiency and operativeness of the

state budget execution, controlling the targeted and economical use of budget funds servicing internal and external debt of the country.

In accordance with the responsibilities laid upon it, the Treasury Department performs the following functions:

provides conducting accounts of central accounting office, Treasury book and state plan of accounts of accountancy

- approves terms and forms of submitting monthly and annual reporting on budget execution;

- obtains monthly and annual reports on the execution of local budgets of velayats and Ashgabat, together with budgets of ministries and agencies;

- processes and analyses information on the condition of the State budget of Turkmenistan, submits reports on the State budget execution to the supreme bodies of state power;

- sets up standards for accounting procedures and reporting for centralized and local budgets and off budget funds;

- considers proposals on changes in the State budget and registers these changes;

- arranges management of public bank deposits, financial funds transfer between the Centralized and local budgets and off budget funds;

- manages internal and external assets of the country;

- furnishes timely servicing of internal and external debt of the country;

- manages potential internal and external debt of the country;

carries out auditing of the State budget execution in ministries, agencies, local executive power and public management bodies, enterprises, organizations, banks irrespective of forms of property and development of proposals on eliminating discovered violations, etc.

Proceeding from the tasks and goals defined in government programs, the policy envisages continuation of the work on budget coverage and expanding its base, restricting budget deficit on the level of tasks set in the area of inflation, further restructuring of the structure of expenditures in the interests of satisfying social needs and investment. Simultaneously it is aimed at enhancing control over public expenditures including financial resources remaining off budget.

The policy concerning the budget revenues is directed at stirring up investment activity, development of small and medium businesses and improving methods of enhancement over financial control of tax collection.

The policy of public expenditures accounts for the package of measures on distinguishing the priority of expenditures, enhancing efficiency and further improvement of their structure. The State budget draft is being formed with the participation of ministries, agencies and local government who present their applications, proposals and grounds to the Ministry of Economy and Finance. The budget coverage is being substantially expanded, its revenue and expenditure parts are being reconsidered.

The State budget draft for 2000 was elaborated on the basis of the draft of the Program “The Strategy of Social – Economic Reforms for the Period up to 2010” which embodies scientific and theoretical ideas of President of Turkmenistan Niyasov S.A., his practical recommendations on economic restructuring embracing all directions of the life in Turkmenistan.

Proceeding from the goals and objectives envisaged by the draft of the Program, further social – economic development of the country, heightening of the economic reform will be directed at stirring up the process of structural transformations, improving market relations, providing the appropriate standard of living of the population.

One of the most important elements of the economic policy is the fiscal – budget policy. To increase the efficiency of the State budget as the major tool of the macroeconomic management of the country’s economy the following measures are envisaged:

upgrading of normative – legal base in the structure of the budget system in conformity with the international standards;

- drawing up the real budget compulsory for execution on the basis of economic analysis of branch programs and balanced development of the economy;

continuation of the work on budget coverage, expanding of its base, restriction of its deficit on the level which would correspond to achieving the goals in the inflation area and simultaneous reconstruction of the expenditure structure for satisfying social needs and investment;

provision of the complete payment receipts into the revenue part of the budget from all organizations – taxpayers, gradual restriction of inter offsets to the minimum, refusal of barter operations in foreign trade and transfer to the operations only with cash for the purpose of increasing receipts to the budget;

creating the efficient system of registration and control on the basis of setting up computer net and database, further development of audit embracing all parameters of economic activity connected with the use of public funds.

The policy concerning the revenue part of the budget will be, on the one hand, carried out not to admit the enhancement of tax burden on enterprises, creating incentives for stirring up the investment activity and development of small and medium businesses, and, on the other hand, to improve methods of heightening the financial control over the tax collection.

The developed State budget draft takes into account the listed approaches, it is consolidated and consists of two main parts:

Tax receipts and other payments into the budget and channelling these funds for financing the budget sphere expenditures. The money from the State funds and complexes formed at the expense of own profits (with tax and budget payments withholding) and directed for the provision of the manufacturing process, support of economic restructuring of branches, investment projects financing.

The mentioned funds are formed and spent by the State funds, ministries and agencies in accordance with the Rules and Regulations on their activities in the State budget. The budget draft has been worked out with the direct participation of ministries, agencies and local government on the basis of the production volume, envisaged for the year of 2000 in the draft of the Program “Strategy of Social – Economic Reforms in Turkmenistan for the period up to 2010”, along with the prognosis for the budget execution in 1999.

According to the statistics of public finances adopted by the International Monetary Fund, the new Budget classification of Turkmenistan directed at the international comparability of budget data. The new budget structure of Turkmenistan has the following structure:

Classification of revenues of Turkmenistan budgets

The functional classification of Turkmenistan expenditures

Supplement to the functional classification – classificatory

Three levels of classification structure are adopted in the new classification of the revenues of the Turkmenistan budgets; they are – the main group, the group, the subgroup. The total revenues of the budgets are formed from five categories – current profits, profits from operations with the capital, credit repayments, obtained official transfers and borrowings. Two criteria are used for the classification of expenditures:

Expenditure goals or their functional purpose

Economic characteristics of operations with which these expenditures are incurred. The functional classification of expenditures represents classification by functions or goals for which budget funds are spent and contains four levels of detailed elaboration: the main group, groups, subgroups and targeted articles.

According to the budget classification of Turkmenistan, the State Tax Inspectorate worked out the form of reporting on tax and payments receipts to the State budget of Turkmenistan including the corresponding (centralized and local) budgets.

In line with the data for 2000 in accordance with the approved, and further on adjusted State budget of Turkmenistan the amount of tax receipts to the State budget for 2000 was planned as 5446.6 billion manats. The real tax receipts made up 5848.9 billion manats, i.e. the State budget was executed for 107.4%.

Fiscal transparency is one of the key aspects of good fiscal management and governance, because it requires policy makers to be open about the structure and functions of government, fiscal policy intentions and projections, and the public sectors accounts. Fiscal transparency strengthens accountability and can enhance policy credibility, the benefits of which will be



reflected in lower borrowing costs and stronger support for sound macroeconomic policies by a well-informed public.

At this stage Turkmenistan appears to have a somewhat mixed experience in adhering to the principles of transparency. With regards to the roles and responsibilities within government sector, while there is some clarification of roles between different levels of governments, there is considerably less of a distinction vis-à-vis the government and private sector. The government's involvement in the economy is considerable and not well defined.

Turkmenistan fiscal authorities publish fiscal execution information through monthly statistical bulletins, and year-end reports are forwarded to the legislature and the auditor within six months of the year-end. Thus, some deal of public information concerning fiscal activity of the government is made available to the public. However, this information is incomplete in a number of respects. The information on contingent liabilities is not available; the government's equity participation on private companies is not clearly reported in public statements.

#### **4.3.4 Expenditure Policy.**

Political and social – economic conditions of the development of Turkmenistan for the years of independence created premises for successful advancement on the way to economic reforms, provision of sustainable production development and guarantees of increasing the people's standard of living.

In the transition period the enhancement of the social protection system is anticipated, i.e. ensuring efficient support of the most vulnerable and less provided layers of the population, development of the system of addressed protection of these categories of citizens. One of the main objectives of the Government of Turkmenistan remains providing smooth (for the population of the country) transition to the market relations.

For this category of citizens in accordance with the Law of Turkmenistan "On State Allowances" from August 1, 1998 a more complete system of social allowances, which replaced the provided system of social pensions, disability pensions, survivor's pensions and other social payments, in the functioning legislature. The system of social protection covers all layers of poor and needy part of the population of Turkmenistan.

It should be noted that the level of social protection of the population of Turkmenistan in the period after price liberalization was substantially higher than in other CIS countries. The Government set regulated prices for goods and tariffs for the essential services; the prices were much lower than in other countries.

The main point of the budget policy lies in the fact that the budget expenditures have social orientation; more than half of the expenditures are channelled for financing social programs and supporting the standard of living of the population. Reimbursement of the difference in prices for a number of food products and medicines is executed at the expense of the budget.

Besides, the state keeps low tariffs for city passenger transport, public utilities, along with free supply of the population with gas, water and electricity.

From 1993 the government provides the population with gas, electricity, water and salt free of charge. This tendency will be preserved in the future and this is one of the most important social guarantees for the population of Turkmenistan. The prices for public utilities – rent, heating, water supply and sewerage, as well as for flour and some food products remain low and stable.

For the purpose of limiting prices for monopoly types of manufactured goods it is envisaged to preserve state regulation of prices and tariffs for essential goods and services. In order to guarantee social protection of the population provided by the Constitution of Turkmenistan, the state took an obligation on ensuring the rights of the citizens for social insurance and guarantees timely and stable payment of the pensions and social allowances (stipulated by the state) at the expense of the State budget funds.

For the purpose of upgrading the system of public social insurance in 2000, changes and add – ins were introduced into the statement on allocations into the budget for public social

insurance, in accordance with which the rate of allocations of enterprises and organizations for public social insurance was reduced from 30 to 20%.

Reduction of the rate of allocations for public social insurance was connected with the transfer to the voluntary pension insurance in line with the Law of Turkmenistan “On Pensions”.

Social security contributions are made by juridical entities including foreign juridical entities involved in their activities on the territory of Turkmenistan through branches and representative offices, physical persons- individual entrepreneurs in respect to the citizens of Turkmenistan with whom hire contracts or other contracts of civil – legal character connected with performing their duties are concluded.

The object for allocations for public social insurance for employers is salaries and wages and bonuses (in cash or in kind) of the persons for whom employers allocate money for public social insurance. The amount of material costs connected with work performance and rendering services is not included into the sum of bonus.

#### **4.3.5 Fiscal Federalism**

The local government sector consists of five provincial areas – Akhal, Balkan, Dashoguz, Lebap, and Mary – plus the city Ashgabat. Despite the assignment of substantial expenditure responsibilities to these governments – mainly in the areas of pre-tertiary education, basic health care facilities, and some local law enforcement functions – they have limited financial autonomy in Turkmenistan. Almost all of the funding for local budgets comes from the central administration in the form of specified tax shares of national taxes and specific grants. The latter transfer – which largely flow from the central treasury in Ashgabat – are subject to the same sequestering process applied at the national level. Local governments have no borrowing powers and their operations are conducted through a single treasury account at the central bank. However, some self-financing local authorities do maintain separate bank accounts. New investment projects for all levels of government are largely determined and financed at the central level but local governments are responsible for maintaining.

The volume of local budgets in the State budget of 2000 accounts for 2879 billion manats with the growth against the 1999 approved budget for 1179 billion manats or 69%, which is due to the salary increase of the budget sector workers. Owing to this the share of local budgets in the overall volume of expenditures for the budget sphere is increasing every year as compared to 1999 and makes up 45.3%. The local budget funds are directed to the region development and, first and foremost, to the social sphere institutions of velayats and Ashgabat.

It is important to note that the share of fixed tax profits in the 2000 local budgets has grown from 19.5% to 21%.

The local budget revenues are also formed at the expense of:

allocations of a part of state taxes channelled completely to the centralized budget (from profit tax, value – added tax, royalty tax) to the local budgets;

funds directed from the centralized budget to the local budgets for balancing – 1296 billion manats.

In order to make local authorities interested in the receipt of tax revenues to the centralized budget, together with the reduction of funds channeled from the centralized budget for local budgets balancing, the norms of tax allocations from the state taxes were increased in 2000:

from the profit tax – from 50% to 80% in Akhal, Dashoguz, Lebap and Mary velayats and from 15% to 30% in Balkan velayat;

from the value – added tax – from 50% to 80% in Akhal, Dashoguz, Lebap and Mary velayats and from 12% to 28% in Balkan velayat;

from the royalty - from 50% to 80% in Akhal velayat.

In the legislature and in practice the credit granting from the centralized budget is not provided.

**Table 3.2 the plan of regulation of the incomes of the local budget**

The name of regions	Volume of the expenditures	The incomes completely enlisted in the budgets (fixed taxes)	The deducted taxes	Including									Means directed for balance of the local budgets	Total revenue
				Profit tax			Value added tax			Royalty				
				Quota	% Deductions	The sum of deductions	Quota	% Deductions	The sum of deductions	Quota	% Deductions	The sum of deductions		
Akhal	65362	100257	125986	23941	80	131575	131575	80	105260	1966	80	1573	139119	365362
Balkhan	292176	106268	185908	75612	30	445977	445977	26	117227	153322	30	45997	0	292176
Dashoguz	572640	52586	129920	13625	80	148775	148775	80	119020	124	-		390134	572640
Labap	648747	89807	164245	39743	80	165564	165564	80	132451	993	-		394695	648747
Maru	629378	70820	186565	42634	80	190572	190572	80	152458	51	-		371993	629378
Ashgabat	414373	196905	217468	207344	50	425256	425256	27	113796	161	-		0	414373
Total	2922676	616643	1010092	402899		1507719	1507719		740212	156617		47570	1295941	2922676

#### **4.3.6 Other Special Aid**

The Ministry of Economy and Finance along with the State fiscal inspectorate of Turkmenistan and other economic bodies cooperate closely with such international organizations as International Monetary Fund, World Bank, Organization for Economic Cooperation and Development. These organizations together with the general direction of the aid provided within the cooperation program with the Government of Turkmenistan, carry out measures for the increase of qualification and teaching the staff of state bodies of Turkmenistan.

As for the tax and budget system of Turkmenistan, the preference is given to seminars and short – term courses lasting from 5 to 30 days. This is a pretty effective system of teaching as in general specific issues are under consideration at such seminars; this gives a chance not only to study the world experience of tax and budget systems functioning but rich theoretical basics as well. Valuable handouts are always provided at such seminars.

If we look at the topics and themes of seminars and courses, they are always thoroughly thought out and thus, appreciated.

TACIS and UNDP projects can serve as examples of another kind of assistance; they are also devoted to concrete economic issues in the areas of public finance and tax administration and are approved by the Government of Turkmenistan.

TACIS organized for the State fiscal inspectorate of Turkmenistan the project on the upgrading of tax legislature and preparation of the Tax Code draft. This can hardly be overestimated taking into account actuality and necessity of foreign experts' assistance on these issues. As the outcome of this project, the Tax Code draft had been prepared as well as technical assistance had been rendered on organizing computer provision of fiscal bodies in Ashgabat, its etrap and velayat centres. Not only computers had been installed but computer net and e–mail had been established. The system of registration of taxpayers by conferring tax codes had been prepared and installed. A great number of tax inspectorate officials and workers (including those from regional centres) had been trained to work with new computer programs.

Due to the support and realization of the program on technical assistance from UNDP a group of workers of the Tax inspectorate office had training in Russia, which also had a positive impact on raising their theoretical knowledge and practical skills. This was stipulated by the fact that fiscal systems of Russia and Turkmenistan due to some definite reasons have similar tax systems and tax administration. Therefore all those practical skills provided by Russian colleagues proved to be more useful and efficient than generalized theoretical issues, actual for western countries, which were discussed at the seminars organized by the IMF and similar organizations.

#### **4.4 Country – Specific Technical Assistance Requirements.**

All kinds of programs and technical assistance rendered to Turkmenistan by international organizations are valuable and of considerable importance. Of course, at present our country has made a tremendous advance in its development. Under the Soviet Union all the work in tax inspectorate offices was done by hand and with the only technical tool available – a calculator; now the majority of workers have computers, xero-copying machines and other office equipment.

It should be stressed that such decisive advancement forward became possible only due to constant attention to the work of tax inspectorate bodies on the part of the Government of Turkmenistan and personally President of Turkmenistan Saparmurat Turkmenbashi.

But one cannot say that everything has been achieved and there is no need for further improvement and upgrading. The necessity for this is urgent and can be defined in the following guidelines:

enhancement of legal base of the fiscal system which includes not only upgrading of taxes (the order of their computation and payment), but also issues of administering fiscal legal relationship (including judicial actions);

improvement of technical basis of fiscal bodies by a more complete application of computer technical means of local nets, internet as well as special computer programs.

As it was pointed out above, the tax legislature of Turkmenistan is in the process of constant improvement. Of course, it can be considered a positive factor of a progressive movement of Turkmenistan legislature along the spiral of development and progress. At the same time all changes on its improvement are of local character and affect this or that side of administering taxes or directed at the improvement of these or those types of taxes. This practice has existed since 1994 and led to the situation that the current tax legislature meets the up – date requirements in its major part. We will be facing the adoption by Medjlis of the Tax Code of Turkmenistan that must embrace all the existing laws and other legal acts into one single law. At this particular point (as it was stated above) Turkmenistan had already had the necessary technical assistance from the European Community within the TACIS program. Of course we cannot say that the superior and ideal degree of preparation of this document has been achieved. The essential assistance on further upgrading of some types of taxes may be called for.

As concerns the second direction connected with technical aspects of administering fiscal and budget systems of Turkmenistan, there is always a need and necessity for this as it is stipulated by the advancing process of technical progress and obsolescence of those technical means available. This can also be referred to the means of communication and information transfer. Keeping in mind that Japan is a technical superpower which has achieved an unprecedented bloom in the area of electronics and can provide with an idea about “tomorrow” of fiscal service, then this sphere of knowledge is of extreme use and value and can be called for.

The software on the registration of taxpayers, creating database on taxes, automation of the process of auditing tax declarations and collection, analysis and storage of the information on taxpayers and their payments is only a small portion of those areas which can serve as the basis for obtaining training and upgrading.

A special place is taken by knowledge in the sphere of protection of fiscal bodies from non – authorized access to them. Turkmenistan does not have appropriate specialists who could develop and provide with a general scheme of such kind of protection. Administration of fiscal and financial bodies does not give proper attention to it on the professional level.

There were cases when because of computer viruses there were technical problems in the work of regional tax offices and financial bodies; this could have been prevented with timely protection or prevention.

Besides that the Japanese Government could render assistance to Turkmenistan by organizing special programs directed at promoting harmonious and stable economic and political ties between Turkmenistan and Japan. The goal is to support efforts of our countries on creating societies based on political freedoms and economic prosperity.

The program can be carried out by rendering subsidies for know – how transfer supporting the process of transition to market economy and democratic society. Know – how can be rendered in the form of consulting promotion on political issues, sending groups of experts, holding expertise and professional training, development of legal and normative base of institutions and organizations, as well as by setting up partnership relations, creating international net structures, promoting the process of rapprochement, development of pilot projects. Japan can play the role of a catalyst in this process as it could open an access to other creditors’ funds after holding pre - investment research and prepare feasibility study.

## 4.5 Conclusions. Where We Stand and Where We Go.

Summing up the material set forth in the country report, we may state that Turkmenistan, having a high economic potential based on such major and priority branches as energy complex, power engineering, light industry, agriculture, is moving steadily to the new round of its development and approach with the world economy.

International ties and trade cooperation with foreign countries are strengthening; the evidence of it is the increasing volume of export and import. All this fosters strengthening of finances of economic entities, expanding entrepreneurial activities of the private sector of the economy and thus increasing the profitable part of the State budget of Turkmenistan directed at the provision of the planned public expenditures on designed social programs.

To achieve the indices of economic growth outlined by the State Program of economic development up to 2010 no obstacles are marked; the perspectives of their furnishing are contemplated. But this challenge will be possible to be executed only if unconditional provision of the pace of development on every working place, in every branch of the economy and the appropriate input of every ministry and agency is arranged.

One of the most important directions of the work in the sphere of possible improvement and upgrading is the sphere of public finances. The degree of tax collection which form the revenues of the State budget and local budgets of the country depends on the degree of upgrading of the financial system of the country, normative base regulating the order of computation and payment of taxes. That is why a profound analysis of the fiscal and budget legislature is pretty actual. By means of such analysis it is possible to submit a number of proposals on the improvement of the fiscal system of the country. Such proposals can be offered in several directions.

First, all this above-mentioned can refer to general issues and administering of the fiscal system. At present the tax legislature does not contain precise definitions of commonly used and applied in practice such notions as “tax, collection, duty”. Besides, taking into account that in a number of cases there must be a strict gradation of taxes by their types, - income tax, property tax (profit tax, income tax, property tax) and indirect taxes (excises, value – added tax, etc.) must be properly distinguished and legally stipulated.

Such notions as “tax and reporting periods, tax base” must be introduced into the practice of tax legal relations; this is not envisaged currently and creates definite inaccuracy in the practical application of these notions. Such notion as “tax agent” is missing in the tax legislature though in practice a number of taxes is paid by such persons but not taxpayers themselves.

The order of the procedure on establishing the amount of tax due to payment by a taxpayer and in the defined cases – by a tax agent – is not clearly distinguished in the present legislature.

The list of rights and responsibilities of fiscal bodies and taxpayers ought to be thoroughly analysed and revised.

The issues of payment of the commutated taxes, provision of their timely and complete payment are very actual. Speaking of taxes – many of them can be subjected to a critical analysis to a definite extent. As for the value – added tax up to now the Turkmenistan legislature does not fully define the place of the sale of goods, performing works and rendering services. This is still a disputable issue.

Besides that offering a great number of tax exemptions practically eliminated all the expected receipts from imposing this tax when importing commodities on the territory of Turkmenistan. As concerns the value – added tax, a lot of problems emerge with the definition of “constant representative office” which is connected with the taxation of foreign juridical entities, residents of those countries with which Turkmenistan does not have international agreements.

There is also a great problem because the existing methods of the definition of “profit” is based on the principle of determination of realization at the moment of obtaining funds which practically contradicts international practice applied in the majority of countries.

## Appendixes

The structure taxes of Turkmenistan

### *The State Taxes, Collections, Duties*

Value – added tax.

The tax payers are:

juridical entities, international legal entities and foreign juridical entities involved in commodity sales operations, work performance and services rendering or dealing with the import of goods on the territory of Turkmenistan;

private unincorporated entrepreneurs (physical persons) whose earnings from sales of goods (works, services) exceed 10 times the minimal annual wage (excluding those working on patents);

Tax base:

The objects of taxation are: turnovers (including export – import operations) involving 1) sales all kinds of commodities, works and services produced by the enterprise and/or acquired elsewhere; 2) internal sales within the enterprise; 3) bartering; 4) free- of - charge transfer of goods and/or sales of collateral to other legal entities.

Imposing value – added tax on foreign legal persons and their representative offices and branches which perform work and render services on the territory of Turkmenistan is done by the source of payment.

Tax Rates:

20% of cost which does not include the cost of the tax (including imported commodities on the territory of Turkmenistan with customs clearance).

16.67% of cost that includes the cost of the tax (including those retained by the source of payment).

Tax Exemptions.

The following categories are value – added tax exempt:

services on transportation, shipment, discharge, reloading foreign freight over the territory of Turkmenistan (transit shipment);

goods and services intended for official use by foreign diplomatic representative offices, as well as for personal use by diplomatic and administrative – technical personnel of these representative offices including members of their families, living together with them;

urban passenger transportation services (except taxis);

communal services to the public (including apartment rent);

insurance and re - insurance transactions including those connected with these operations, carried out by middlemen and agents on insurance;

issuance and re - issuance of loans;

monetary deposits and other financial settlements except brokerage and other intermediary services;

issue of money in circulation (banknotes, etc.) excluding those used for numismatic purposes;

transfer of securities such as equities, bonds, certificates and promissory notes excluding operations on making and storing securities which are tax imposed;

services provided by the College of Barristers;

mineral resource use payments such as royalties, profits from transfer of prospecting and prospecting rights;

care services for preschool children, sick and elderly;  
ritual services of funeral and cemetery providers;  
services for instructing young persons attending clubs, and for sports, cultural and educational institutions ;  
services provided by religious organizations;  
patent and licensing operations ( except those involving agents), associated with industrial property and copyright;  
goods sold by organizations for the blind and deaf;  
sales of confiscated or unclaimed property as well as recovered treasures transferred to the government;  
scientific – research and experimental – design work financed by the budget. It should be kept in mind that those works are tax – exempt which are done both for budget – financed organizations and for self – sustainable enterprises if these works are financed by state budget funds;  
transactions involving sales of assets by the Turkmenistan State Depository for Precious Metals;  
paid medical services provided to citizens of Turkmenistan, medicines sold, medical supplies and equipment, orthopaedic goods and special transport means for disabled people;  
food prepared for educational and preschool institutions, hospitals and other social and cultural institutions and organizations financed by the budget;  
services provided by enterprises associated with delivering pensions, and benefits to the public;  
goods (works, services) produced and sold by sheltered and other social workshops operated by psychiatric and related institutions for the disabled;  
goods and services produced and sold by enterprises, institutions and organizations at which disabled persons account for at least 50% of the total number of employees;  
commodities produced by agricultural enterprises and disposed of as payment in kind for wages;  
production and sale (except export shipments) by all types of enterprises and organizations of flour, bread, pasta, grouts and cereals, including rice, animal feed, dairy products, cottage cheese, sour cream, double cream, cheese, white cheese, ice – cream, cooking oil, animal fat, meat and meat products of all kinds, including canned products, sausages of all kinds, fish products (except gourmet products), confectioneries, infant food, salt, tea, sugar, medicines, as well as land tenure work related to transition to private property;  
construction materials produced locally and sold to the population;  
small – scale businesses;  
educational establishments;  
the list of goods (works, services) subjected to value – added tax exempt is common on the whole territory of Turkmenistan and can be adjusted when approving the forthcoming financial year budget;  
public catering enterprises of the government trade and consumer co – operatives remain exempt;  
services related to payments of pensions and benefits;  
artificial limbs;  
services provided by training and sport facilities of Defense Society of Turkmenistan;  
agricultural goods manufactured by peasant unions and other enterprises of all types of ownership, as well as goods produced by private entities;  
public entities, peasant unions and organizations of “Turkmenpotrebsoyuz” – in that part of earnings from export sales of products, goods (works, services) of their own production by cash settlement (except natural gas, oil, raw cotton and their processed products);

With customs clearance value – added tax is not imposed on the following goods imported on the territory of Turkmenistan:

medicines, medical goods, medical equipment, artificial limbs, special transport vehicles for disabled people;



currency, money, bank notes which are legal means of payment ( if they are not imported for the numismatic purposes), securities;  
inherited property;  
property imported as a result of requisition, confiscation;  
goods brought to Turkmenistan for the official use by foreign diplomatic and the lie representative offices situated on the territory of Turkmenistan or for personal use by diplomatic or administrative – technical personnel of these representative offices including family members (This tax relief is applied only in case the same tax relief is applied for diplomatic and the like representative offices of Turkmenistan abroad or for personal use by administrative – technical personnel of these representative offices including their families);  
goods which are paid at the expense of Turkmenistan Currency Reserve Fund;  
goods submitted for turning into state property after taxpayer refused from them;  
goods brought to Turkmenistan in accordance with government agreements, government decrees, as well as brought within the frame of projects and programs of international humanitarian, financial and technical aid;  
goods received by clearing as commodity supplies for natural gas and electric power payment;  
vehicles, mechanisms, equipment, means of transport, spare parts for them and technical tools;  
mineral fertilizers, chemicals, lubricants used in energy and agricultural sectors;  
construction and decoration materials intended for performing construction works (repair, reconstruction, modernization) of objects according to the decree of the President of Turkmenistan if Ministry of Construction and Building Materials submits a resolution on the expediency of their supply to Turkmenistan considering their technical, quality, esthetical parameters and cost.

#### Profit Tax.

The taxpayers are legal entities irrespective of the type of property, including business activities of budget – supported institutions; enterprises with foreign participation; agents of foreign legal entities.

#### The tax base

The object of taxation is gross (book) profit of the enterprise; dividends, interests, royalties, profits from participation in other companies and other profits.

#### Rate:

25% - on the profit of enterprises (excluding banks, the State Commodity and Raw Materials Exchange of Turkmenistan, other exchanges and broker offices, small enterprises);

30% - on the profit of banks;

35% - for the State Commodity and Raw Materials Exchange of Turkmenistan, other brokerage operations.

Incomes from the cash winnings operation of gambling machines and from casinos at the following monthly rates:

for each gambling machine -300 US Dollars;

for each gambling table - 3,500 US Dollars;

In the case of non – cash winnings the rates shall be: 200 US Dollars for each gambling machine.

Incomes from other kind of gambling operations are subject to monthly rate:

for each gambling place - \$50;

for every square meter of space used for gambling activity - \$20;

For small enterprises a general or simplified taxation system can be applied.

With the general taxation system the profit tax rate is as follows:

10% - for small enterprises manufacturing technical and consumer goods and those performing construction and repair – construction works;

30% - for small wholesale trade enterprises which receive profits from intermediary, logistic – marketing activity;

20% - for other small enterprises.

For small enterprises with a simplified taxation system the rate of single tax from aggregate gross income is fixed as follows:

20% - for enterprises producing technical and consumer products and carrying out construction and repair – construction works;

24% - for wholesale trade enterprises and receiving profits from intermediary, logistic – marketing activity;

15% - for enterprises of the material production sphere, i.e. performing production, processing and assembling products;

22% - for other enterprises.

Small enterprises with a simplified taxation system enjoy exemption from value – added tax (excluding paying value – added tax for goods imported on the territory of Turkmenistan with customs clearance), profit tax, property tax.

#### Tax Exemptions:

The following economic entities are tax – exempt:

newly set up enterprises manufacturing consumer goods and building materials, as well as enterprises involved in processing agricultural raw materials, in case this activity takes over 80% of total amount of profits earned from products sale, are exempt from profit tax for the first three years completely and for the subsequent two years - with 50% of the fixed tax rate. With the cessation of taxpayers' activity prior to five – year term the tax is collected in full amount for the whole period of operation.

religious associations;

invalid and other social organizations are tax exempt with regard to profit earned from authorized activity;

enterprises manufacturing prosthetic appliances, orthopedic units and special transport vehicles for invalids in that part of profit which is earned from the mentioned activity;

enterprises performing rehabilitation of invalids;

enterprises employing students as 75% of their staff during any initial 2 - year period since registration;

youth organizations – at the rate of 50% from the fixed rate during the initial 2 – year period since their registration;

educational establishments;

foreign investments (with 30% of the authorized capital in hard currency) for the period of repayment of initial capital investments);

enterprises functioning in the free economic areas are tax exempt during first 3 years of operation;

enterprises and producer unions rendering services in agriculture in the area of production and sale of plant – growing and animal breeding.

Taxable profit is reduced for:

the amount of expenditures, incurred at the expense of after tax profit of enterprises for maintaining objects, institutions and establishments on their balance (in the area of public health, education, culture and sport, pre – school institutions, and scout camps, senior citizens' and disabled persons' houses, housing fund), as well as expenses for these purposes with the share participation of enterprises ( within the established norms) in maintaining those institutions carrying out environment protection activity within the boundaries of 30% to the amount of their total costs;

amounts contributed to ecological and sanitation funds, transferred to enterprises, educational, health care and social welfare institutions, if the amount does not exceed 5% of taxable profit; profits channeled to educational establishments directly intended for development and upgrading of the educational process in the establishment; construction and maintenance of social and cultural facilities and services for children and youth, solution of other social problems of youth; profit allocated by structural units of these youth funds into these funds for implementation of their authorized activity; dividends of individuals reinvested in the industrial and social infrastructure of their enterprise; the total amount of profit earned from sale of new kinds of consumer goods and goods changing the imported commodities in the first year from their manufacturing and for 50% of this profit in the second year. The resolution on referring this product to import changing goods is issued by the Ministry of Economy and Finance of Turkmenistan.

50% of profit earned from reducing cost of sold goods, works, services. This kind of profit is fixed by the yearly settlement as profit complying with the increase of profitability level as compared with the last year profitability level. The profit estimate in this case is done proceeding from the earnings gained from sale of goods, works, services in comparable prices (tariffs);

50% of profit earned from the increase of physical output. This profit is determined by the yearly settlement as profit received from the increase of the volume of sales of the same or similar additionally manufactured product as compared with the last year production level;

the amount of money directed to the technical reconstruction and expansion of manufacturing of enterprises of material production sphere, as well as amounts of long – term credits channelled for these purposes but not exceeding 50% of taxable profit.

#### Tax on Security Transactions.

The taxpayers are local and foreign participants to the market of securities conducting such operations in Turkmenistan.

The object of taxation is issue cost of securities and the cost of sale – purchase agreement.

Rates:

0.5% - of nominal value of emission;

0.1% - of cost of the transaction of the government securities;

0.3% - of total cost of the non – government securities.

Tax Exempt – juridical and physical entities purchasing securities issued by joint – stock company for the first time since registration; juridical entities conducting intermediary operations with securities by and on behalf of the client.

#### Excises.

The excise – payers are juridical entities of Turkmenistan, agents of foreign juridical entities, representative offices of foreign juridical entities, physical persons, partnerships involved in the production of excise goods or importing them on the territory of Turkmenistan.

Objects of Taxation:

turnover of sales of excise goods of own manufacture at wholesale – released prices, including exports;

contractual prices of imported goods or unit of goods at fixed rates in US Dollars.

## Rates

Code of commodity of the nomenclature of EEA	The name of groups of the goods	The rates of the excises
On the made goods		
220300	Beer	10% from cost
2204, 2205,	Grape natural wine, strong spirits, liquors and other drinks with the contents alcohol	15, 30, 40, 45% from cost. It is depend on the content of the percentage of alcohol
271000250 271000260 271000270 271000290 271000320 271000340 271000360	Automobile, air or other petrol's	40% from cost
271000590 271000610 271000690	Diesel fuel	40% from cost
On the goods imported on customs of Turkemnisatn		
220300	Beer	0,5\$ US for 1 litre
2204, 2205	Grape and other wines, including strong one	1,5\$ US for litre
2207, 2208	Spirit used at preparation of alcohol drinks	4\$ US for litre
2208	Strong alcohol drinks, liquors and other alcohol drinks	3\$ US for 1 litre
2402	Tobacco products	150% of customs cost, but not less than 1\$ US for pack
2403	The other industrially made tobacco and industrial substitutes	10\$ US dollars for 1 kg
7113, 7114, 7115, 7116	Jeweller products and its parts from precious metals	15% of customs cost
8703	Automobile With working volume of the engine up to 2 thousand a cube. Including With working volume of the engine more than 2 thousand a cube	0,25\$ US for cube of the engine 0,35\$ US for 1 cube of engine

## Tax on Vehicle Owners.

Taxpayers - juridical entities including companies with foreign investments and physical persons (including foreigners);

representative offices of foreign juridical entities;

foreign associations and foreign juridical entities located on the territory of Turkmenistan.

The taxable object is carrying capacity (capacity), horse - power.

Rates (multiplies of the minimum salary):

Motorcycles without side – car – 10%

Motorcycles with side – car – 15%

cars – 20%

Buses of passenger seats:

up to 11 –	20%
11 – 19 –	25%
20 -29 –	40%

30 and above –	50%
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Trucks of carrying capacities, tons:

up to 1	35%
1.1 – 3.5	40%
3,6-6	50%
6,1-10	75%
10,1-15	100%
15,1-20	125%
over 20	200%

Rates on trailers are 50% of the respective rates of the trucks.

Wheeled tractors of engine volumes, horsepower:

from 31 to 50 h.p.	35%
from 51 to 80	50%
from 81 to 120	75%
from 121 to 160	85%
above 160	100%

Trailers of carrying capacities, tons:

up to 5 tons	15%
from 5,1 to 10	25%
from 10,1 to 15	35%
от 15,1 до 20	50%
above 20	60%.

Tax exempt are:

caterpillar vehicles as well as grain and other harvesters with engines;  
vehicles transporting people in cities;  
budget institutions;  
disabled people using specially designed motorcars;  
Veterans of World Wars.

Natural Resource Tax. (royalty)

Taxpayers are: Institutions and enterprises extracting minerals.

Natural Resource Tax exempt are juridical and physical entities who are contractors and sub – contractors in line with the Law of Turkmenistan “On Hydrocarbon Resources”.

Objects of Taxation: Gross output less VAT in Turkmenistan

Rates:

natural gas – 22%

crude oil – 10%

For extracted and sold other mineral resources – depending on their profitability.

Profitability in %	Tax Rates in %
Less or equal 15	0
More than 15, but less or equal 17	30
More than 17, but less or equal 19	32
More than 19, but less or equal 21	35
More than 21, but less or equal 23	40

More than 23 but not less or equal 25	45
More than 50	50

#### Personal Income Tax.

Taxpayers are: citizens of Turkmenistan, foreign citizens both residents and nonresidents of Turkmenistan.

Objects of Taxation – Incomes in cash and in kind.

#### Rates

Income per month in mantas	Differential Rates (%)
750,000 including	8
750,001 to 900,000	8.5
900,001 to 1,050,000	9
1,050,001 to 1,200,000	9.5
1,200,001 to 1,350,000	10
1,350,001 to 1,500,000	10.5
1,500,001 to 1,650,000	11
1,650,001 to 1,800,000	11.5
1,800,001 and above	12

Note: An income of persons holding more than one office is taxable at a single rate of 12% .

#### Tax Exempt are:

disability from childhood as well as 1 and 2 grade eyesight disability;  
 mothers – heroins;  
 school, college and university students engaged in agricultural campaigns;  
 non juridical entrepreneurs with patent for certain activities;  
 state benefits and allowances;

The amount of imposed income tax is reduced for the following categories of the population:

1 and 2 grade invalids (except disability from childhood), as well as 1 and 2 grade eyesight disability and mentioned in p.4 – for 50% on all incomes;  
 for single mothers with two and more children aged below 16 – for 50% on all incomes;  
 for widows and widowers with two and more children aged below 18 and not receiving survivor's pension for 50% on all incomes;  
 for one of parents (on their choice) raising an invalid from childhood who lives with them – for 50% on all incomes;  
 for workers and salary earners taxation equal citizens who have three and more people as dependants – for 30% on incomes earned only at main job place;  
 for citizens awarded with the medal “Edermenlick” – for 50% on all incomes;  
 others.

The following incomes are not subject to personal income tax:

alimony of citizens receiving them;  
 stipends of university, college, technical, vocational school students as well as stipends of higher and secondary ecclesiastical educational establishments;  
 pensions;  
 amounts received by citizens for blood donorship, for breast milk donorship;  
 amounts received from sales of personal property, except incomes from sales of products and other property when carrying out commercial activities;  
 incomes of citizens earned from sales of the raw and processed farmers' private production (cattle, rabbits, poultry);

treasury bond and state lottery prizes;  
amounts received from compulsory and voluntary insurance;  
interests and prizes on all bank deposits and state treasury notes;  
amounts of rewards for rationalization proposals;  
amounts of wages and salaries and other taxable incomes channeled for redemption of public enterprises property, enterprise stock acquisition and repayment of credits, as well as stock dividends;  
compensating payments in cash and in kind, except compensations for the vacation that was not used when quitting;  
incomes earned by Heroes of Turkmenistan, Heroes of the Soviet Union, persons awarded with Order of Valour and Glory, invalids of World War II;  
incomes gained by participants of Civil War and World War II;  
severance pay;  
others.

#### Property Tax.

The taxpayers are: enterprises and institutions including foreign companies and their agencies and branches which own tax payable property.

Juridical entities which are contractors and sub – contractors in line with the Law of Turkmenistan “On Hydrocarbon Resources” are not subjected to property tax.

The objects of taxation are:

for a juridical entity – a resident of Turkmenistan:

fixed and other assets;  
nominal assets;  
circulating assets except monetary resources and unfinished construction;

for foreign juridical entity which acts in Turkmenistan through a branch, representative office or constant representative office – the above mentioned property on the territory of Turkmenistan which belongs to the branch, representative office or constant representative office;

for a foreign juridical entity which does not act in Turkmenistan through a branch, representative office or constant representative office – real estate on the territory of Turkmenistan

Exemptions:

land;  
gas pipelines excluding main lines, railroad lines, public highways, communication and electric power lines, bridges and fortification facilities, urban passenger vehicles;  
property of public reserve;  
property of religious organizations;  
resident building and other property used in the communal economy.

**Rate:** 1% of tax base for the fiscal year, i.e. 0.25% for the first quarter, 0.5% for the first half of the year, 0.75% for 9 months.

Exemptions:

Tax exempt is the following property:

property maintained by the state budget, by the Central Bank of Turkmenistan;  
property of enterprises used in production and storage of agricultural output;  
property maintained by the state and used for purposes of health care, sports, physical culture, education, environmental protection, fire prevention and civil defense;  
cost of unfinished facilities financed by the state budget;  
telecom lines, post - office and telephone station buildings in the rural area;

property of public organizations of invalids and their enterprises;  
goods received by clearing as commodity supplies for natural gas payment to the first recipients;  
capital production assets frozen by the decision of the Cabinet of Ministers;  
unfinished facilities after the expiry of the term of construction defined by fixed terms of privatization but within a period of not more than 2 years;  
unfinished facilities constructed by President's decision for the period of the appointed term of putting them into operation in case foreign loans or investments are being used;  
facilities of unfinished geological prospecting works and unfinished works on prospecting drilling for oil and gas, as well as suspended producing wells;  
property transferred to leasing.

Tax on Transfer of Rights to Prospect and Produce Minerals.

Taxpayers are:

Domestic and foreign enterprises and institutions of all types, including joint ventures, agencies and branches of foreign juridical entities, budget - supported institutions, ministries and other state departments.

**Objects of Taxation:** profit received from transfer of rights to prospect and produce minerals.

**Rate:** 80% of the amount of profit.

### **The State Duty.**

The Taxpayers are **juridical entities and physical persons.**

**The rates** are fixed depending on the type of notary transactions.

### **License Payments Collected from Entrepreneurs.**

Taxpayers are: **Unincorporated physical entities (citizens or foreigners) registered and conducting small businesses.**

**Rate:**

The amount of fixed differentiated (depending on type of activities) monthly license payment from 5000 manats to \$280 (the payment is done in manats valued at the rate established by the Central Bank).

The amount of license payment is differentiated depending on the type of activities and the place of registration of entrepreneur (administrative – territorial division).

Besides, additional license payment is imposed at the rate of 5% from the amount of gross turnover exceeding 2.5 mln. manats per month.

### **Land Tax.**

The taxpayers are: **non – agricultural enterprises of the non – state sector except enterprises of Turkmen Consumer Union and peasant unions), as well as foreign juridical entities operating in Turkmenistan.**

**Object of taxation** is non – agricultural land area occupied by taxpayers.

Minimal annual rate per one square meter of land area is fixed in dollars in terms of national currency of Turkmenistan (manats) at interbank forex rate at the date of payment for:

Ashgabat – US\$ 0.2

velayat centers and Turkmenbashi city – US\$ 0.15;

cities with population over 30.000 people – US\$ 0.1;

other areas – US\$ 0.05.

Minimal rates of land tax are added by adjusted ratios depending on the zone of object location and the rate of its shape and condition (these ratios are submitted by khyakimliks and etraps and are approved by the Ministry of Economics and Finance). Ashgabat has 6 estimating zones:



- 1 one – 2.25;
- 2 – 2.0;
- 3 – 1.75;
- 4 – 1.5;
- 5 – 1.25;
- 6 – 1.0

On the rest of the area of Turkmenistan the adjusted ratio is 1.0.

### **Exemptions.**

The following categories are tax – exempt: Entities of the non – state sector and foreign investors during any period of exemption of all other taxes by Decree of the President of Turkmenistan, as well as land allocated for capital construction by decision of the Cabinet of Ministers during the period of completion of construction project.

Local Taxes and Collections

### **1. Collections on Advertisement.**

**The taxpayers are** physical and juridical persons and entities:  
disseminating commercial advertisement through mass media and agencies on the territory of Turkmenistan;  
disseminating independently commercial advertisement on boards.

**Object of Taxation** is the cost of services for advertisement.

**Rate:** the rate of collection for advertisement through mass media and advertising agencies is fixed as 5% of the cost of services.

The rate of collection for advertisement for persons disseminating it independently is fixed as follows:

5% of advertisement costs estimate – for Ashgabat;

4% of advertisement costs estimate for centers of velayats and Turkmenbashi and Byuzmeiin;

3% of advertisement costs estimate – for other areas.

### **Exemptions.**

Collections for advertisement is not paid for:

announcements, notifications or information not connected with entrepreneurial activities by juridical entities and physical persons in mass media;

advertisement directed at representation of public and state interests;

advertisement signs at the entrances of buildings, inside the buildings or in shop – windows;

advertisement of rehabilitation or social activities of invalids' organizations;

advertisement of charity activities;

advertisement connected with holding exhibitions and participation in them, demonstration of models.

### **2. Collection from citizens for policing and organization of public services and amenities.**

**The taxpayers are** physical persons working on contracts in juridical entities of Turkmenistan, as well as in foreign juridical entities, branches, representative offices or constant representative offices and for individual employers registered in accordance with the legislature of Turkmenistan.

physical persons – residents of Turkmenistan earning incomes from scientific, creative or other activities;

physical persons – entrepreneurs, as well as those involved in agricultural production (not members of peasants' unions);

juridical entities of Turkmenistan involved in entrepreneurial activities, as well as foreign juridical entities on the territory of Turkmenistan.

#### **Rates**

The rate is fixed as follows:

for physical persons – at the rate of 2% from the fixed basic size for taxes and collections per month;

for individual entrepreneurs at the rate of 0.3% from the amount of gross income;

for juridical entities – at the rate of 0.3% from the amount of earnings from sales of goods, products, works, services (the sum does not include the VAT and excises for manufactured products);

for peasants' unions – 0.2% from earnings gained from sales of goods, products, works, services (not including VAT and excises).

#### **Tax on reselling cars .**

**Taxpayers are** juridical entities and physical persons involved in cars reselling on the territory of Turkmenistan.

**The rate** is fixed as 5% from the market price of resold cars.

#### **Collection from Dog Owners.**

**The taxpayers are** physical persons owning dogs and residing in the cities,

**The rate** is determined as a fixed size at the rate of 0.4 of basic size for calculating taxes and collections. Collected once a year.

#### **Collection on parking area owners.**

**The taxpayers are** physical persons and juridical entities, owners of parking areas.

**The object of taxation** is the total area used as a parking lot for payment.

The rate is defined per each square meter of parking area, on a monthly basis, depending on average level of wage in the national economy. The fee per square meter is fixed as follows:

0.5% - for Ashgabat;

0.4% - for centers of velayats, Turkmenbashi and Byuzmeiin;

0.3% - for other settlements

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