



Grant Thornton

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Doing business in Armenia 2018

Commercial guide for investors





“Whether you are an existing business looking to relocate to Armenia or an entrepreneur looking for some guidance on starting a business there, you will find this Guide to be an indispensable tool for conducting business in Armenia”.

Gagik Gyulbudaghyan

Managing partner
Grant Thornton Armenia

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“This Guide aims at attracting higher interest of investors towards Armenia. Grant Thornton wishes success to all endeavours in this direction and will be happy to extend professional support in facilitating them”.

Gagik Gyulbudaghyan

Managing partner
Grant Thornton Armenia

Foreword

Grant Thornton Armenia is the leading audit and advisory services firm in the market, sharing the Grant Thornton philosophy worldwide.

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 42,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.

If you require any further information, please do not hesitate to contact your nearest Grant Thornton member firm.

This guide has been prepared for the assistance of those interested in doing business in Armenia. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Armenia and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of 01 July, 2018.

In case you need any further support and guidance when making investments in Armenia, we hold ourselves in readiness to support you in all possible undertakings and any bold endeavours conceived to be implemented in Armenia.

Country profile

Summary

Armenia, officially the Republic of Armenia (RA), is a sovereign, unitary, democratic and social state with ancient cultural heritage. The first mention of Armenians and their ancestors in historical writings is found in inscriptions which date back to the third millennium B.C. Armenians are the first nation to adopt Christianity as the official religion of their state (301 A.D.). The modern Armenia recognizes the Armenian Apostolic Church, the world's oldest national church, as the country's primary religious establishment. Armenians have their own unique alphabet invented by Mesrop Mashtots in 405 A.D.

Armenia occupies 29,800 km². It is located in the Southern Caucasus and borders with Georgia in the north, Azerbaijan to the east, Turkey in the west, and Iran to the south.



Armenia is a mountainous land-locked country, the average altitude of which is 1800 m above the mean sea level. Its climate is sharp continental (very hot in summer and very cold in winter), humidity is low.

The capital of Armenia is Yerevan (with approximately 1 million of population), Gyumri and Vanadzor are the other two largest cities.



About 3mln population

average longevity - 75 (men - 71.6 years, women - 78.3 years)



Around 64% of the general population lives in urban areas



95% of the population are Armenians

The rest are mostly Russians, Yezidis, Kurds, Assyrians, Greeks and Ukrainians

The monetary unit of Armenia is the Armenian dram (AMD). The market based average exchange rates of Armenian dram vis-à-vis foreign currency are published by the Central Bank of Armenia¹.

Armenia proclaimed its independence on the 21st of September 1991, after 70 years within the Soviet Union. The national flag of Armenia consists of three horizontal bands of equal width, red on the top, blue in the middle, and the color of apricot on the bottom.

The national coat of arms of Armenia depicts Mount Ararat with Noah's Ark in the centre on a shield, and the coats of arms of the four kingdoms of historical Armenia. The shield is supported by a lion and an eagle while a sword, a branch, a sheaf, a chain and a ribbon are portrayed under the shield.

Armenia currently has diplomatic relations with more than 180 countries worldwide. Armenia is a member of the United Nations Organization (UNO), International Monetary Fund (IMF), The World Bank (WB), European Bank for Reconstruction and Development (EBRD), Council of Europe, Organization for Security and Co-operation in Europe (OSCE) and the World Trade Organization (WTO). Armenia is also a member of the Commonwealth of Independent States (CIS). In October 1994 Armenia signed a limited military cooperation agreement with the North Atlantic Treaty Organization (NATO) and in November 2017 – Armenia-The EU Comprehensive and Enhanced Partnership Agreement.

Constitution

The main national law of Armenia is the Constitution, adopted in 1995 and amended by the referendums in November 2005 and December 2015, which sets out basic rights and freedoms, as well as establishes guaranties and safeguards against their violation. The Constitution also specifies the tripartite system of government (the principle of separation and balance of the legislative, executive and judicial powers).

The other national legal acts should all be in consistency with the Constitution and constitutional laws (the concept of constitutional laws was introduced by the amendments to the Constitution made in

¹ Average exchange rate in 2017: 1 USD = 482.63 AMD; 1 EUR = 546.15 AMD, 1 RUB = 8.28 AMD

December 2015 aimed at distinguishing certain laws which might be adopted at a higher threshold of votes as compared to laws, the list of the constitutional laws is specified by the given amendments to the Constitution). Even international treaties may be ratified only in case they are in compliance with the Constitution. Armenia is monist in its relationship with international law, thus the act of ratifying the international law immediately incorporates it into national law, which means that international law can be directly applied by a national judge, and can be directly invoked by citizens, just as if it were national law.

System of government

The current system of government of Armenia is parliamentary which was introduced as a result of the recent amendments to the Constitution replacing the former semi-presidential system.



The incumbent Prime Minister of Armenia is Nikol Pashinyan who was elected by the National Assembly in May 2018 after the anti-government protests led by the former which forced the former Prime Minister to resign.

The current National Assembly formed in April 2017 is comprised of 105 members. It is noteworthy that though the former Prime Minister resigned in April 2018, his political party still retains the majority of seats in the National Assembly.

The President of Armenia is Armen Sarkissian who was elected by the National Assembly for a 7 year term in April 2018.

The judicial power is exercised by the three-level court system and by the Constitutional Court (only for matters of constitutional justice).

The court system in Armenia consists of the Courts of First Instance (Courts of General Instance, Administrative Court and Bankruptcy Court (to be established starting from 2019)), Courts of Appeal and the Court of Cassation. Decisions from First Instance Courts may be appealed to the Courts of Appeal, and from there to the Court of Cassation. In case all judicial remedies are exhausted and a final court act is available, it is

possible to file an application to the Constitutional Court challenging the constitutionality of a legal provision applied upon the court act.

Moreover, upon exhaustion of all domestic remedies (according to the generally recognized rules of international law), an application may be filed to the European Court of Human Rights within a period of 6 months from the date on which the final decision was taken, asserting that the state violates their rights under the Convention for the Protection of Human Rights and Fundamental Freedoms signed in Rome in 1950 (the abovementioned period for filing an application would be changed to 4 months, upon the entry into force of Protocol 15 amending the Convention).

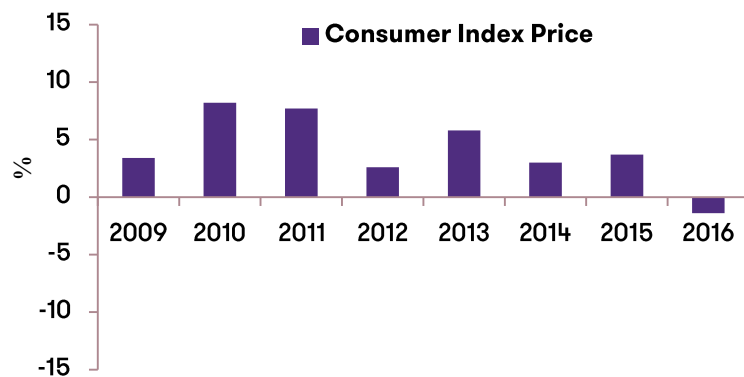
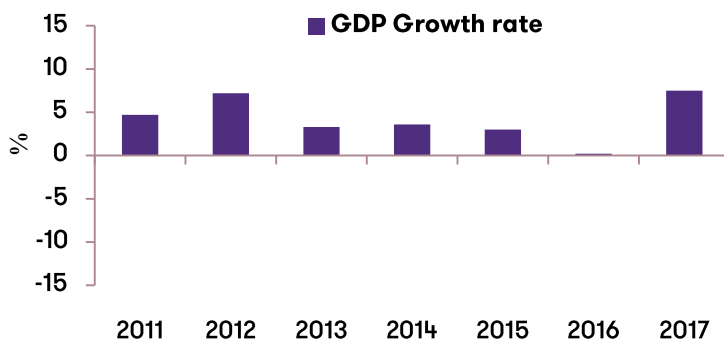
Economy

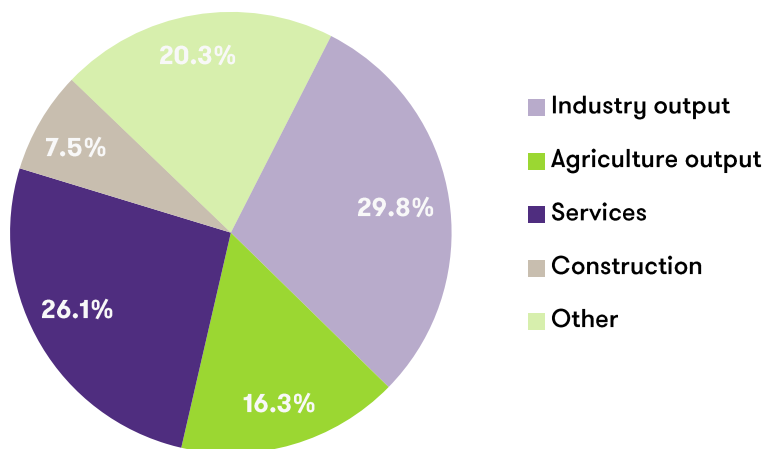
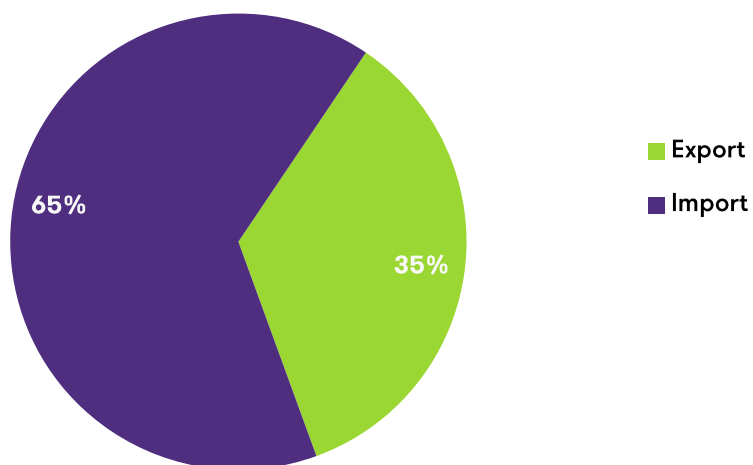
After gaining independence in 1991, Armenia adopted a policy of liberal market economies and initiated a privatization program. Armenia rates significantly higher than the world and regional averages in terms of Investment Freedom according to 2018 Index of Economic Freedom (the 44th freest). In 2017 Armenia recorded GDP in the amount of AMD 5,568.9 billion.

The main sectors of the economy undergoing rapid growth include mining, energy, including renewable energy, construction, IT, food processing and beverages, jewellery and diamond processing, as well as tourism (number of tourists having visited Armenia in 2017 – appr. 1.5 million) and financial services. Armenia stands out for a number of advantages such as: inexpensive but highly skilled labour force (Human Development Index Rank 84), developing and rather liberal banking regulations, favourable investment legislation, existence of free economic zones, etc.

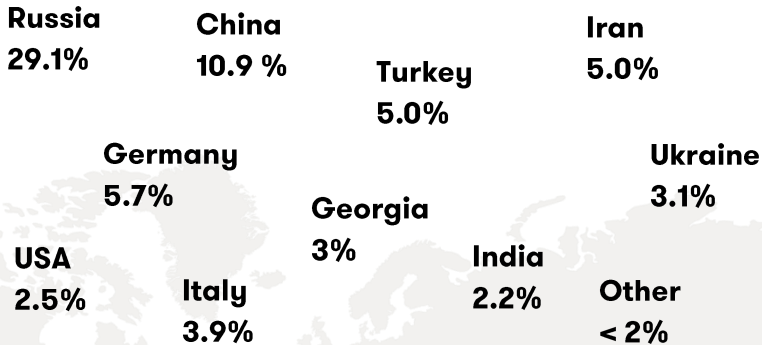
Control over financial system players, including the banks, is exercised by the Central Bank of Armenia. In summer of 2005, a bank deposit guarantee fund was created, which currently guaranties bank deposits in the amount of AMD 10 million for deposits made in Armenian drams and AMD 5 million - for deposits made in foreign currency.

Key economic figures and rankings

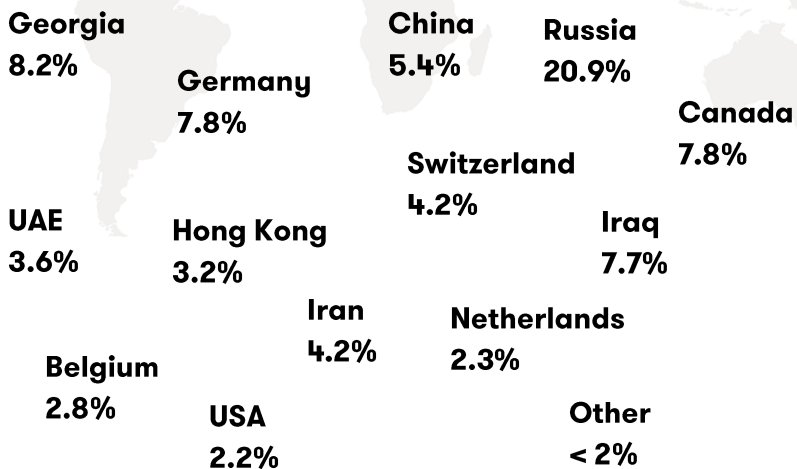


Gross outcome of main sectors (2017)**External trade turnover (2017)**

In 2016, Armenia major trading partner countries for imports were:

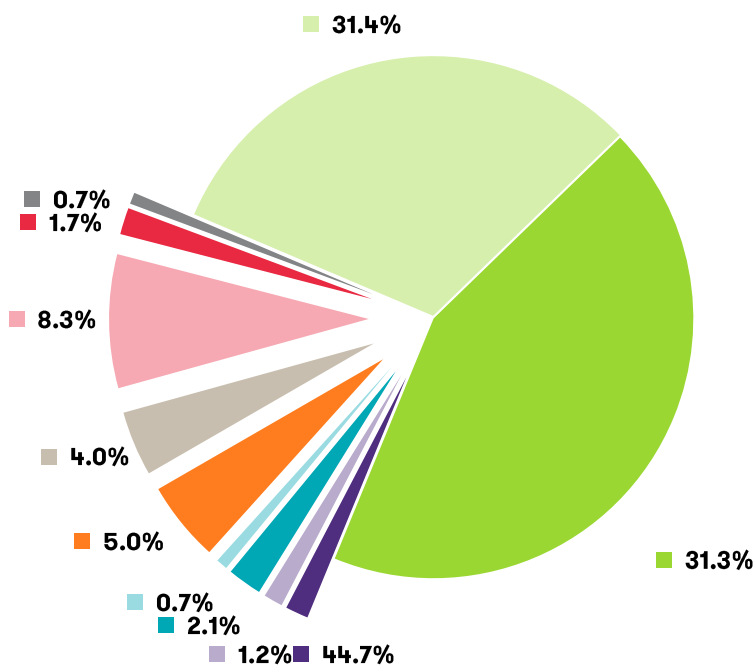


In 2016, Armenia major trading partner countries for exports were:



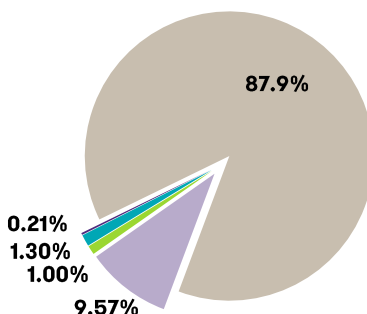
Financial system players (2017)

- Banks
- Credit organisations
- Insurance companies
- Insurance brokerage firms
- Pawnshops
- Exchange offices
- Money transferring companies
- Payments processing and clearing organisations
- Investment companies
- Managers of investment funds
- Reporting issuers



Financial system assets (2017)

- Banks
- Credit organisations
- Insurance companies
- Investment companies
- Pawnshops



Transportation

The geographical location of the country, particularly its lack of direct access to the sea, as well as relations with neighbouring countries and the political situation in the region have significant impacts on the cargo transportation sector. As a result of having closed borders with two neighbour countries (Turkey, Azerbaijan), cargo transportation is mainly organized by surface carriers using the northern and southern borders, i.e. borders with Georgia and Iran. Particularly, 85% of the merchandise imported into Armenia by surface carriers has to transit through Georgia, due to the great volumes of shipments to Georgian seaports (the ports of Poti and Batumi). It is worth noting that ferry services connect Poti with the port of Varna (Bulgaria), the port of Caucasus (Russia, Krasnodar region), and the port of Ilichevsk (Ukraine) which facilitates transportation to Armenia from European destinations. Road transportation remains the best means of cargo transportation both from the Armenian borders into the country and to Georgia or Iran. The Armenian road network (7,700 km) serves the whole country. Aimed at strengthening the economic links to other economies, within the framework of the Government's strategy to improve road infrastructure, road network management capacity, and road safety, currently a new road is being constructed to connect the northern and southern borders of the country (through Meghri, Kapan, Yerevan, and Bavra).

The total length of railroads is 725 km. Air transport infrastructure consists of two international airports: "Zvartnots" and "Shirak" with both passenger and cargo traffic.

Foreign investments

In Armenia making foreign investments is encouraged by the Government. Making investment does not require any preliminary authorization.

The field of foreign investments is regulated mainly by the Law “On Foreign Investments” adopted as of 31 July, 1994 (hereinafter referred to as under this chapter “the Law”), which provides the types and forms of foreign investments, guarantees securing protection of foreign investments and additional privileges to foreign owned entities (applicable in case if foreign investment in the capital fund is no less than 30% at the moment of establishment), as well as procedure for settlement of any dispute arisen in connection with foreign investments.

Ease of Doing Business

Topics	2018 rank	2017 rank	Change in rank
Starting a Business	15	9	-6
Dealing with Construction Permits	89	81	-8
Getting Electricity	66	76	10
Registering Property	13	13	No change
Getting credit	42	20	-22
Protecting Minority Investors	62	53	-9
Paying Taxes	87	88	1
Trading Across Borders	52	48	-4
Enforcing Contracts	47	28	-19
Resolving Insolvency	97	78	-19
Overall	47	38	-9

Sources: National Statistical Service of Armenia, Central Bank of Armenia, the World Bank

Investment types

According to Article 3 of the Law, any of the following objects of civil circulation might be invested in Armenia by “foreign investors”, i.e. by any foreign state, entity, national, person having no citizenship, Armenian citizen permanently residing outside of Armenia, as well as any international organisation eligible to make investments according to the applicable personal law:

- currency values, including foreign currencies, Armenian dram;
 - in respect of foreign currencies this Law may be considered as an exception to the general currency regulations specified by the Law “On Currency Regulation and Currency Control” adopted as of 24 November, 2004; in fact, on the basis of the Law any investment by foreign investors might be made in foreign currency irrespective of the investment form or invested amount;
- movable or immovable property or any property right, including buildings, constructions, equipment, other tangible assets, etc.;
 - certain property listed in Government Decision No. 720 adopted as of 07 August, 2001 which shall be contributed by a foreign investor to the capital fund of an Armenian entity may be imported free of customs duty, but still will be subject to value added tax (Article 15 of the Law);
 - in case of import of goods within the framework of investment projects implemented by the organizations and individual entrepreneurs selected under the Government decision, the payment due date for the value added tax amounts calculated by the customs authorities can be deferred for 3 year period (Article 79 of the Tax Code adopted as of 04 October, 2016);
 - physical persons not having Armenian citizenship, except for foreigners having a special residence permit (10-year passport/residence card issued in particular circumstances), might not acquire ownership right to land, save for lands for private housing, construction of public and production objects, multi-apartment buildings, etc. (Article 60 of the Constitution, Article 4 of the Land Code adopted as of 02 May, 2001).
- shares, bonds, other types of securities;
 - some tax incentives are specified in respect of state bonds, particularly:
 - i exemption from profit tax of the interest received by a non-resident entity from state bonds issued in foreign currency or of the income received by such entity in the form of a discount upon the maturity of the given bonds, as well as of any other income received from alienation of the given bonds, their

- exchange with other securities or other transactions concluded in this respect (Tax Code, Article 126);
- ii exemption from income tax of the interest received by a physical person (including a foreign citizen either resident or non-resident) from state bonds or of the income received by such person in the form of a discount upon the maturity of the given bonds, as well as of any other income received from alienation of the given bonds, their exchange with other securities or other transactions concluded in this respect (Tax Code, Article 149);
- iii exemption from value added tax of the transactions in connection with the alienation of the bonds (Tax Code, Article 64);
- some tax incentives are specified in respect of shares, particularly:
 - i exemption from income tax of any income received by a physical person (including foreign citizens either resident or non-resident) from shares alienation (Article 149 of the Tax Code);
 - ii application of profit tax at the rate of 0% on the positive difference between the alienation and initial acquisition prices (on capital gain) of the alienated share (Tax Code, Article 125);
 - iii exemption from value added tax of the transactions in connection with the shares alienation (Tax Code, Article 64);
- rights to monetary claims or claims for performance of liabilities having contractual value;
- intellectual property rights;
 - since 1994, Armenia is a member of the World Intellectual Property Organization (WIPO) and, in general, the Armenian legislation regulating IP rights is consistent with the World Trade Organization (WTO) regulations on this subject-matter);
 - aimed at prohibiting the import of forgeries into Armenia, the holder of IP rights could apply to the Armenian customs authorities for the suspension of import of such goods into member states of the Eurasian Economic Union, including Armenia.
- right to conduct certain economic activity on the basis of the Armenian legislation or a contract, including the right to explore natural resources, mining rights, etc.;

- services;
- any other object not prohibited by the Armenian legislation.

Investment forms

Foreigners are suggested various methods of investments to be made in the Armenia (Article 4 of the Law), including:

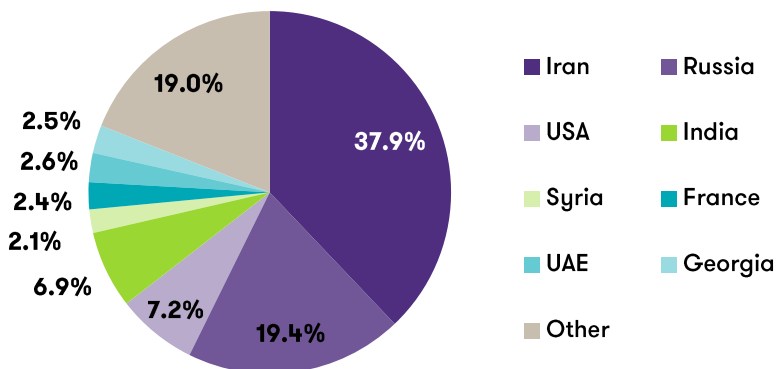
- foundation of commercial legal entities with 100% foreign capital, or of subdivisions, or acquisition of all shares of an existing Armenian company;
- creation of joint ventures with participation of Armenian entities, or partial acquisition of shares of an existing Armenian company;

It should be noted that in case of commercial entities registered in Armenia with foreign capital, its founders and directors might work in Armenia without having obtained relevant work permit (Article 23 of the Law “On Foreigners” adopted as of 25 December, 2006).

- acquisition of bonds and other securities;
- acquisition of other property rights;
- other forms of investment not prohibited by the Armenian legislation, based on agreements with Armenian entities.

Entities established with foreign capital

Source (as of April, 2017) - State Register of Legal Entities



Guarantees for protection of foreign investment

In addition to the general protection rules specified by the Armenian legislation, the Law foresees the following guarantees for protection of foreign investments:

- prohibition on application of a legal regime to foreign investments less favourable than the regime of investing activity for Armenian citizens and legal entities (Article 6 of the Law);
- application, upon the discretion of the investor, of the law actually in force at the date of investment for 5 year period maximum in case of the change of the legislation regulating foreign investments (Article 7 of the Law); it should be noted that as a result of ambiguity of term “legislation regulating foreign investment” which should be changed in order to give rise to the right of investor to be governed by the law prior to changes, this guarantee is rather impracticable;
- prohibition on nationalization or forfeiture of the objects of foreign investments; the sole exception is specified only for seizure in cases of emergency on the basis of court decision provided that full reimbursement is paid to the respective foreign investor (Article 8 of the Law);
- guaranteed right of the foreign investors to receive compensation for material and moral damages, including loss of expected gain, incurred as a result of illegal actions of Armenian state bodies or officials (Article 9 of the Law);
- guaranteed right of the foreign investors to dispose the profit generated from the investment provided that the respective taxes and other duties specified by the Armenian legislation have been duly paid (Article 10 of the Law);
- guaranteed right of foreign investors to export their property, lawfully generated profit out of Armenia (Article 11 of the Law);
- guaranteed right of foreign owned entities to carry out any economic activities not prohibited by the Armenian legislation (Article 14 of the Law); under the Armenian legislation for certain activities to be

conducted on the territory of Armenia, the respective entity should preliminarily obtain relevant license.

Settlement of disputes

According to Article 24 of the Law in case of any disagreement between a foreign investor and Armenia, the disputes shall be resolved in the Armenian courts. In case Armenia is not a party of the dispute, the latter shall be resolved in the Armenian courts or any other bodies resolving economic disputes or, upon agreement of the parties, in arbitration tribunals, unless otherwise provided by international treaties or parties' preliminary agreement.

It should be noted that unlike the judgments rendered by foreign competent courts which may be enforceable in Armenia only upon the international agreement between the states concerned on the recognition and enforcement of foreign judgments, a final arbitration award rendered by a foreign arbitration tribunal will be recognized and enforced by the Armenian courts in accordance with the Convention on the Recognition and Enforcement of Foreign Arbitral Awards signed in New York in 1958 to which Armenia is a signatory, subject to the conditions and limitations of the said Convention and the Law "On Commercial Arbitration" adopted as of 25 December, 2006.

Concurrently, it is worth noting that beginning from 16 October, 1992 Armenia has become a member of the International Centre for the Settlement of Investment Disputes (ICSID) and acceded to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States signed in Washington in 1992 providing facilities for the resolution of legal disputes between eligible parties, through conciliation or arbitration procedures.

Business entities

Commercial legal entities may be established in the form of joint stock companies, limited liability companies, supplementary liability companies, general partnerships or limited partnerships, commercial cooperatives. The founding (governing) document of a legal entity is its charter. The charter determines the size of the entity's statutory capital, the composition and competencies of the governing bodies and the rules for decision-making, the rights and obligations of the participants/ shareholders/ partners, the rules for exit and the transfer of shares of a participant / shareholder / partner to another person.

Most frequently used types of legal entities are:



It is also widely applicable to register a subdivision (either a branch, or a representation office) rather than a separate legal entity. Particularly, this form is frequently chosen by foreigners. It should be noted that a subdivision is deprived of any separate legal capacity and acts only in accordance with the powers delegated by its founder. The sole difference between a representation office and a branch is that the former is only entitled to represent and defend the interests of its founder, while a branch can implement all those functions, which the founder can perform, on top of that, it can perform all functions of a representation office.

According to the legislative changes made in 2016 the process of re-domiciliation was introduced and currently foreign legal entities wishing to transfer their domicile to Armenia are able to do so without winding-up their legal entity. The same opportunity is also introduced for local legal entities wishing to be 're-domiciliated' abroad.

Limited liability companies

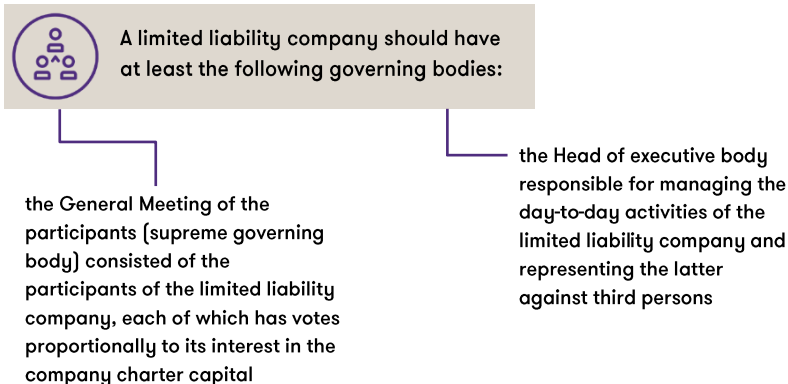
A limited liability company is an economic entity, the charter capital of which is divided into shares the number of which is determined by its charter. The participants of the company are not liable for the obligations of the company and within the values of their contributions shall bear responsibility for the risks of losses related to the activity of the company. The number of the participants of a limited liability company may not exceed 49.

A limited liability company may be founded by a physical or a legal entity. It should be noted that a limited liability company may not act as a sole founder/shareholder of another business entity.

There is no mandatory minimum charter capital requirement for a limited liability company, except for cases when the law envisages minimum capital requirements for certain types of activity. Contributions to the charter capital may be in the form of money, securities, other property or rights estimable in money. In case contributions consist of non-monetary assets and the nominal value of the shares for which the contributions are made does not exceed AMD 500,000, they should be estimated by the meeting of the founders/participants. Otherwise, the contributions in the form of non-monetary assets should be estimated by an independent appraiser.

The contributions should be totally made within the term (no longer than 1 year upon the registration of the company) agreed by the founding agreement of the limited liability company.

The shares register of a limited liability company is kept by the State Register Agency of Legal Entities and is available for public.



In case the number of participants of a limited liability company exceeds 20, a Supervisory Board should also be established or a Supervisor shall be nominated. Establishment of an additional governing body (e.g. Board) may be envisaged by the charter of the limited liability company.

The key points pertaining to a limited liability company are as follows:

- Participants of a limited liability company may transfer their shares in the company's capital to third parties (non-participants) only if the other participants do not exercise their priority right to purchase at the price at which the shares will be sold to third parties.
- A participant may withdraw from a limited liability company at any time. Upon withdrawal, the limited liability company is required within 6 months to repay the value of the participant's share.
- A participant in a limited liability company may be removed by judicial procedure upon the request of another participant/s holding at least 10% of the shares, if the participant's activity or inactivity makes the usual activities of the limited liability company difficult or impossible. The limited liability company would be required within 6 months to repay the value of the excluded participant's share.
- A participant's personal creditors may seize the participant's share in a limited liability company to settle obligations upon a court decision, if

the participant's other property is insufficient to satisfy the creditors' claims.

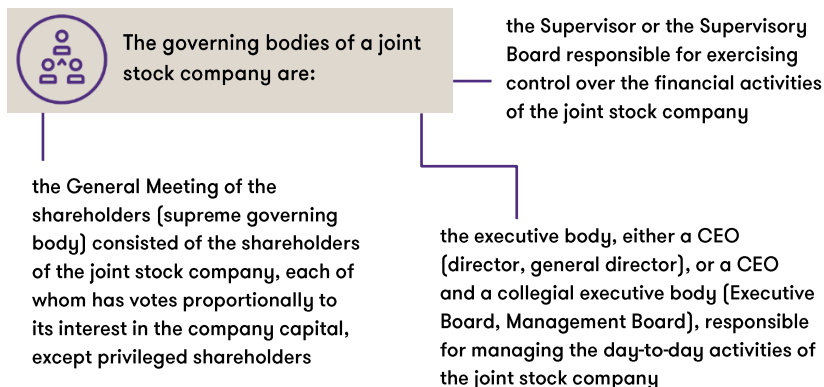
Joint stock companies

A joint stock company is a legal entity, the charter capital of which is distributed into a certain number of shares. The liability of shareholders in a joint stock company is limited to the value of their capital contribution. There are two types of joint stock companies: joint stock companies of open type and joint stock companies of closed type. An open joint stock company may, without restrictions, issue shares and sell them to public. Every shareholder has the right to sell shares without consent of the other shareholders. In closed joint stock companies, shares are distributed only among its shareholders (including founders) or pre-decided persons, and the number of shareholders is restrained (maximum envisaged by the law: 49 shareholders). Moreover, existing shareholders in a closed joint stock company also have pre-emptive purchase rights for shares offered for sale by the other shareholders.

The legal framework for joint stock companies is mostly similar to that applied for limited liability companies. As is the case with a limited liability company, there is no mandatory minimum charter capital requirement for a joint stock company. The shares may be paid for by means of property, including money, securities and property rights, and intellectual property. In case the shares are paid for by means of non-monetary assets upon the establishment of a joint stock company, the order for their estimation should be agreed between the founders. In case non-monetary assets are contributed for additional shares, they should be estimated by an independent appraiser in the manner specified by the Board's decision (in case no Board has been created by the charter of the joint stock company, settlement of this issue shall fall within the competence of the General Meeting of the shareholders) of the joint stock company.

Unlike the limited liability companies, the shares register of a joint stock company is kept by a specialized register keeping organization. Moreover, a joint stock company may issue and allocate shares granting different

rights to their owners. Particularly, privileged shares may be issued, the total nominal value of which may not exceed 25% of the charter capital of the joint stock company. In general, the holders of privileged shares do not have voting rights at the General Meeting of the shareholders. But at the same time claims of privileged shareholders are satisfied in priority to those of ordinary shareholders.



In case the number of shareholders of a joint stock company exceeds 49, a Board consisting of at least 3 members should also be established. Persons who are neither shareholders of the joint stock company nor their representatives may also be elected as members of the Board, unless otherwise specified by the charter of the joint stock company.

Unlike the legal framework of limited liability companies, the legal framework of joint stock companies defines in details the cases when the owner of a voting share may exercise its right for a put option and the joint stock company is obliged to buy the shares for which a put option is exercised. Particularly, this refers to cases when an important decision affecting shareholder's rights was adopted and if the latter voted against such decision or did not participate in the vote.

Registration

Business entities, including subdivisions, are registered with a unified register kept by the State Register Agency of Legal Entities. Upon the

registration the given entity is deemed automatically recorded with the tax body and is awarded a Taxpayer Identification Number.

The incorporation of a business entity takes in general 2 working days once the correct documents are filed.

The creation of a business entity consists of two stages:

- | | |
|--|--|
| <p>1 elaboration and collection of documents envisaged by the law</p> | <p>2 submission of documents to the State Register Agency of Legal Entities required for state registration</p> |
|--|--|

It should be noted that the registration of a legal entity is free of charge. No state duty is imposed. For registration of a legal entity, the following documents should be submitted to the registration authority:

- the application of the founder/s or the head of the executive body or the authorized person of the founder/s of the legal entity;
- the decision on the creation of the legal entity or the minutes of the constituent assembly of the legal entity (if the latter is founded by more than one person (in case one of the founders of the legal entity is another legal entity, the decision of the authorized body of the latter should be also submitted));
- the copies of the charter of the legal entity (at least two copies, for each additional copy a duty shall be paid in the amount of AMD 2,000) approved by the founder or constituent assembly;
- the passport details and the social services number (or the number of attestation on absence thereof) of the head of the executive body (a copy of his/her passport, and in the case of a foreigner - a translated and certified copy of the passport), as well as the e-mail address of the latter;
- statement about actual beneficiaries.

If the founder or one of the founders is a foreign legal entity, then notarized translations into Armenian of the following documents should be also submitted:

- extract from the commercial registry of the country of origin of the founder;
- founding documents of the foreign legal entity, for instance, the charter of the latter or other equivalent documents.

These documents should contain the following information on:

- the legal status and organizational form of the founder;
- the registration date in the country of residence;
- the juridical name of the founder;
- the place of residence of the founder;
- the competences of the managing bodies of the founder, including of the body competent to make decisions on the foundation of another legal entity.

In case the founder or one of the founders is a foreign physical entity, the notarized translation of his/her passport shall be submitted together with the generally required documents.

The registration procedure can be carried out electronically. Unlike the registration of a legal entity, for the registration of a subdivision of a commercial legal entity there is a state duty in the amount of AMD 12,000. For registration of a subdivision, the following documents should be submitted to the registration authority:

- the application of the head of the executive body of the founder or the authorized person of the founder or the head of the subdivision containing the name of the founder and its state registration number, details of the head of the subdivision (passport details and the social services number (or the number of attestation on absence thereof), residence address, contact details), as well as the e-mail address of the latter;
- the decision on the establishment of the subdivision and approval of its charter, as well as on the nomination of the head of the subdivision;
- the copies of the charter of the subdivision;
- the document proving the payment of the state duty.

If the founder is a foreign legal entity, then the notarized translations into Armenian of the abovementioned documents (including the extract from the commercial registry and its founding documents) should also be submitted.

For re-domiciliation purposes the foreign legal entity shall undergo the following registration processes:



In connection with the first process the given foreign legal entity shall submit:

- the application on preliminary registration containing information on its current name and the new name under which the given foreign legal entity wishes to operate in future, as well as on the main types of its activity, jurisdiction where the given legal entity is registered and on the legal form corresponding to the legal form valid in such jurisdiction;
- the decision of the competent body of the given foreign legal entity or respective minutes or excerpt thereof containing provisions on the re-domiciliation of the given legal entity to Armenia, on the legal form and name chosen in accordance with the local legislation, as well as on approval of its new charter;
- the extract from the commercial registry on the given foreign legal entity and its founding documents;
- the data on the head of the executive body of the given foreign legal entity (passport, contact details, as well as the e-mail address of the former);
- the document proving the payment of the state duty which is equal to AMD 10,000;
- the copies of the charter approved in conformity with the local legislation;
- the data on shareholders of the given foreign legal entity: in case of a shareholder being a local legal entity the name and state registration number are requested; in case of a shareholder being a physical

person or a foreign legal entity (requested if the shares register is to be kept by the registration authority) – either the copy of his/her passport or the extract from the commercial registry on such foreign shareholder and its founding documents;

- the copy of the charter of the given foreign legal entity valid before re-domiciliation.

In case any of the documents mentioned above are drawn up solely in a foreign language, they should be accompanied with their notarized translations into Armenian. The same rule applies also to the documents to be submitted for final registration.

In case the abovementioned documents are duly submitted and there is no legal basis for rejection of the application, a record on preliminary registration of the foreign legal entity subject to re-domiciliation is made. Such record shall be made within 3 days in case of foreign business legal entities.

For the final registration the given foreign legal entity shall submit:

- the application;
- the document proving the registration of the data on re-domiciliation or termination of activities of the given foreign legal entity in the respective foreign jurisdiction;
- the declaration of the competent body of the given foreign legal entity on non-performance of any transaction during the period starting from the date of receipt of the document proving the preliminary registration of re-domiciliation up to final registration date (in case such declaration is submitted, the date of preliminary registration shall be deemed as the final registration date).

The final registration shall be completed within 3 days from submission of the required documents.

Labour

Labour relations in Armenia are governed by the Labour Code, which became effective on 21 June, 2005.

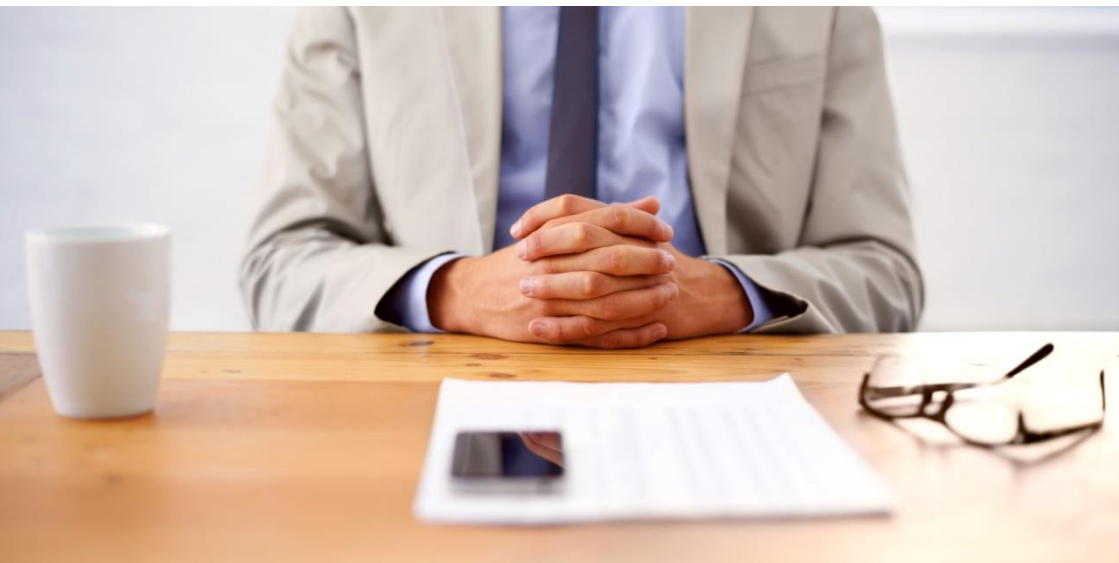
The Labour Code foresees 2 bases for formation of labour relations: 1) employment contract, and 2) individual act on hiring.

The labour legal capacity in Armenia arises in full from the moment of reaching the age of 16 and in some cases at the age of 14. Concurrently, the Labour Code provides also the possibility to employ children under the age of 14 and involve them in performance of creative works in specific sectors such as

cinematography, performing arts, etc. The retiring age established by the law is 63.

In 2017 the average monthly wage in Armenia was AMD 195,074. The minimum allowed wage in Armenia is AMD 55,000 per month, excluding applicable taxes and other payments.

Regular working hours should be 40 hours a week (8 hours a day maximum). Overtime is possible within the limits of 48 hours a week and 12 hours a day.



Legal bases for labour relations

Generally, players of employment relations give preference to an employment contract as a basis for labour relations rather than to an individual act. In any case, both documents should be in compliance with minimum requirements set forth by the Labour Code.

The latter distinguishes two types of employment contracts: a contract concluded for 1) definite term or 2) unlimited term. As a general rule, contracts could be concluded for certain term only in exceptional cases when the labour relations could not be defined for an indefinite period with account of the conditions or the nature of the work to be performed. The employment contract with definite terms can be also concluded in the following cases:

- with the elective employees for the elected period;
- in case of combined work;
- in case of a seasonal work (in that case it cannot exceed 8 months and employer can prematurely terminate the contract serving at least three day prior notification in writing);
- in case of a temporary work (it cannot exceed two months, employee can be obliged to work during holidays/days-off and employer can prematurely terminate the contract serving at least 3 day prior notification in writing);
- in case the temporarily absent employee is replaced for the period of absence;
- with a foreigner for the period of validity of his/her work permit or the right to sojourn;
- in case of hiring a retiree.

According to the general rule, foreigners/expatriates wishing to work in Armenia are required to obtain a visa and a work permit. However, a work permit is not required for people who have a permanent or special status of residence, their spouses and relatives, as well as of Armenian nationals or of legally staying expatriates having temporary status of residence

(during the term of the given status), refugees, as well as for the founders, members of executive body of commercial legal entities with foreign capital, employees of foreign commercial organisations working in the representation office of the latter in Armenia, specialists in certain areas, etc.

The regulation on issuance of work permits was adopted in May 2016 and entered into force in June 2016. According to the said regulation before employing a foreigner who is required to obtain a work permit, the respective employer shall apply to the Ministry of Labour and Social Affairs and provide the latter with the description of the job duties to be assumed by the foreigner concerned in order for the Ministry of Labour and Social Affairs to try to find an Armenian specialist suitable for the given job. In case no candidate is suggested or the suggested candidate is declined by the employer, the latter may address to the Ministry of Labour and Social Affairs the documents on the respective foreigner (including an application, valid copies of the passport and of the documents on the latter's qualification, 1 colour photo) along with the payment receipt of the respective state duty in the amount of AMD 25,000 for the issuance of the required work permit for a certain period. Unless a basis for rejection of the said application is present, the work permit shall be issued within 5 working days upon submission of all documents on the respective foreigner. It should be noted that the legal force of the given regulation was suspended in August 2016 up to 01 January, 2019.

Leaves

The Labour Code provides several types of leaves, including annual paid and special leaves (pregnancy and maternity leave, educational leave, leave for taking care of children under age 3, leave for fulfilment of state or public duties, as well as unpaid leave). As a general rule, the employee shall retain his/her job position during the leave period.

The length of an annual paid leave is 20 working days in case, if the working week is comprised of 5 working days, and 24 working days - if the working week is comprised of 6 working days. The annual leave may be

provided in parts at the request of the employee. In any case, one of the parts of the annual leave should last at least 10 or 12 working days depending on the length of the working week. Annual leave for each working year is granted in the same working year. The transfer of annual leave is allowed only through the mediation of or with the consent of the employee. In any case, the transferred annual leave shall be granted no later than during 18 months starting upon the end of the working year for which the annual leave has not been provided. During annual paid leave the employee is paid an average salary. The monetary compensation for unused annual leave shall be paid at the time of termination of the employment contract.

Pregnancy and maternity leave is 140 days (70 days before and 70 days after child delivery). In case of complications in birth, leave is extended to 155 days (70 days before and 85 days after child delivery) and in case of twins or triplets birth - 180 days (70 days before and 110 days after children delivery). For this period the employee is paid a maternity allowance, the amount of which is reduced by the employer from the sums payable to the state budget in terms of income tax.

Employees taking care of a child under age 3 (father, mother, grandparents or other members of the family) can benefit from a leave for taking care of children under age 3.

Employees are also entitled to educational leave to take admission examinations at secondary vocational and higher education institutions, as well as for examinations while studying at regular, secondary vocational or higher educational institutions for a period from 2 up to 30 working days.

In addition, an employee will be granted a leave for fulfilment of state or public duties, including for taking part in elections or acting as a witness, as well as for acting as a donor. According to the Labour Code, during this period the average salary of the employee shall be paid or compensated by the organization or body in favour of which such duties have been performed or in case of employees of non-state or local authority their

average salary shall be paid by the employer. An exception is made for the volunteers taking part in hostilities either in Armenia or abroad based on the mutual military aid agreement signed with the respective state. In such case the remuneration of the respective employee is to be defined by the agreement of the parties or a collective agreement (if available).

An unpaid leave may be granted to the employee upon the initiative of the latter for a period no longer than 60 calendar days during a year (not applicable to employees of state or local authority). In general, such leave is granted in connection with extraordinary and special events, including in case of the marriage, or funeral of a family member, etc. The length of unpaid leave in each case is specified by the Labour Code.

Termination of labour relations

The bases for termination of labour relations are as follows:

- upon the mutual consent of both parties;
- upon the expiry of the validity term specified in the respective employment contract or individual act;
- on the initiative of the employee;
- on the initiative of the employer (for serious misconduct, loss of confidence towards the employee, in case of staff reduction taking place due to economic reasons, etc.);
- in case of conscription of the employee to compulsory military service;
- in case of a court decision put in effect to call the employee to account as a result of which work continuation is deemed impossible;
- in case the employee forfeited the rights to perform certain works in the manner established by the legislation;
- if the employee is under 16 of age and either of the parents, or adoptive parent or tutor/guardian, or physician in charge of health monitoring of the minor, or social inspector for labour protection requires termination of the employment contract;
- in case of changes to essential working conditions;
- in case of death of the employer - physical person;

- in case of the employee's death;
- in case of the information provided by the employee during placement concerning the latter's qualifications or state of health appears to be false;
- upon the results of the probation period specified by the consent of the employee and the employer;
- in case of concealment by the employee at a time of placement of the fact that he/she was forfeited the right to perform certain types of work.

The Labour Code envisages provisions to protect pregnant women or employees taking care of children (infants) under age one, as well as legitimate strikers against the risk of employment contract termination on the initiative of the employer.



Fiscal system

Fiscal relations in Armenia are currently regulated by a unified Tax Code adopted by the National Assembly in October 2016, the majority of the provisions of which entered into force on 01 January, 2018. Meanwhile, certain provisions of the Tax Code have entered into force since 01 January, 2017.

The tax year in Armenia is a calendar year. Presently, state taxes include profit tax, income tax, excise tax, VAT, nature protection tax, road tax, turnover tax and patent tax. As regards local taxes, they include real estate tax and vehicle tax (the regulations thereon will enter into force on 01 January, 2020; until then the rules on property tax and land tax would still apply).

Control over the procedure for calculation and payment of state taxes is carried out by tax authorities and, in certain cases as specified by the law, by customs authorities. Concurrently, the authority to exercise control over the calculation of local taxes and their collection is vested with local self-governing authorities.

Profit tax

Profit tax is to be paid by resident organisations, individual entrepreneurs, notaries, contractual funds registered in Armenia and non-resident organisations, as well as non-resident physical persons performing activities in Armenia through a permanent establishment and/or receiving incomes from the Armenian sources through such permanent establishment.

Residents are taxed on the profit gained in the territory of Armenia and outside, save for personal incomes of individual entrepreneurs and notaries in the meaning of the Tax Code; while non-residents are taxed solely on profit gained in Armenia, save for personal incomes of non-resident physical persons derived from Armenian sources.

The annual profit tax rate applicable to residents, as well as to non-residents performing activities in Armenia through a permanent establishment, is, in general, 20%. The profit tax is calculated on the basis of the taxable profit, which corresponds to gross income, deducting the amounts specified by the law (expenses required for conducting activities and justified by corresponding documents, depreciation allowances, etc.).

Insurance compensation, reinsurance payments and income received from the freight	5%;	For the incomes payable to non-residents, performing activities in Armenia without a permanent establishment, the amount of the profit tax shall be withheld at the source at the rates presented in the table and paid to the state budget by a tax agent.
Passive income (including dividends, interests, royalties, lease payments, capital gain)	10%	
Other incomes derived from Armenian sources	20%	

Taxation of non-residents, performing activities in Armenia without a permanent establishment shall be made according to the cash-basis method. However, the term ‘payment’ has a quite extensive definition and refers also to cases of offsetting payables against receivables, debt novation, restructuring, etc. Even in case of dividends, they are deemed ‘paid’ to a non-resident as soon as respective decision on their declaration is adopted irrespective of the actual payment date.

A taxpayer must submit to the tax authorities its profit tax calculation for the respective tax year no later than April 20 of the following year, and the tax must be paid within the same time period. In addition, tax agents shall, before the 20th of month following each reporting quarter, submit to the tax authorities a tax return on incomes paid to non-residents during the

respective quarter and taxes withheld therefrom. The tax amount declared in the said return shall be paid within the same time period.

As a general rule, residents and non-residents performing activities in Armenia through a permanent establishment shall make advance payments quarterly (no later than on the 20th of the last month of the respective quarter), at 20% of the actual amount of the profit tax for the previous year. A taxpayer, who has submitted to the tax authorities a declaration on termination of activities/non-performance of any activities, is entitled not to make any advance payments for the quarters fully included in the period of non-performance of any activities.

Concurrently, residents and non-residents performing activities in Armenia through a permanent establishment may choose for an alternative option for making advance payments provided that respective application is submitted to the tax authorities till March 20 of the current year. In case the alternative option is chosen, the taxpayer shall quarterly (no later than on the 20th of the last month of the respective quarter) make advance payments at 2% of the total amount of incomes received from supply of goods, provision /performance of services/works during the previous quarter.

The Armenian fiscal legislation provides several tax incentives in respect of profit tax, such as:

- the right of a resident entity to calculate profit tax at the rate of 5% in case the former or a group of resident entities (including the former) carry/ies out the export project approved by the Government and meet/s all the following criteria:
 - the resident entity or entities involved in the group is/are not engaged in activities in any of the following spheres: extraction and/or processing of metallic minerals, trade and/or refining of precious stones, manufacturing and/or trade of jewellery, precious metals, as well as of products subject to excise tax;
 - total amount of the customs value of the products exported (by the resident entity or entities involved in the group) out of Armenia under

- “export” customs procedure and/or moved to other member states of the Eurasian Economic Union and of the value of the services/works provided/performed out of Armenia for the benefit of non-resident entities constitutes at least AMD 40 billion (the Government fixes a minimum amount of the customs value of such products per each export project) during the reporting year;
- during the reporting year the bank accounts of the resident entity or entities involved in the group, opened with the Armenian resident banks, were credited with the total sum in foreign currency equivalent to at least AMD 40 billion in connection with the activities specified by the export project;
 - during the reporting year the resident entity or entities involved in the group has/have not received any income from supply of goods or provision /performance of services/works within the territory of Armenia save for loan/deposit interests and incomes from securities, including their sale.
- the right of a resident entity to calculate profit tax at the rate of 2% in case the former or a group of resident entities (including the former) carry/ies out the export project approved by the Government, meet/s all the above-mentioned criteria (save for the second criteria mentioned above), as well as the total amount set forth in the second criteria above constitutes at least AMD 50 billion;
 - the right of a resident entity to calculate profit tax at the rate of 5% in case the former or a group of resident entities (including the former) carry/ies out activities solely beyond the territory of Armenia in the sphere of construction or installation within the framework of the project approved by the Government;
 - the right of a resident entity (excluding any entity exercising activities in the sphere of trade or financial services or any entity applying a reduced profit tax rate in cases mentioned above) to deduct from the amount of profit tax 100% of salaries and equivalent payments paid to new employees hired during the respective year in accordance with the business plan approved by the Government decision in consideration of the criteria specified by the Government in this respect. This tax

incentive shall be valid for the year of the commencement of the respective activities specified by the approved business plan, as well as for consecutive 5 years. In any case, the amount of deduction per each year of application of this tax incentive may not exceed 30% of the profit tax calculated for the relevant year;

- the right of resident and non-resident entities exercising entrepreneurial activities in a free economic zone established in Armenia on the basis of the relevant authorization granted by the Government and the contract signed with the organizer of the relevant free economic zone to be exempt from profit tax in respect of incomes derived from activities performed in the given free economic zone;
- exemption from profit tax of the interest received by a non-resident entity from state bonds in foreign currency or of the income received by a non-resident entity in the form of a discount upon the maturity of the given bonds, as well as of any other income received by a non-resident entity from alienation of the given bonds, their exchange with other securities or other transactions concluded in this respect.

Income tax

In Armenia both resident and non-resident physical persons, including citizens of Armenia and foreign citizens, are entitled to pay income tax. An individual shall be considered a resident if during a tax year (from January 1 to December 31 inclusive) he/she has been residing in Armenia for a total duration of 183 days or more, or whose centre of vital interests is in Armenia.

For a resident the taxable income received within or outside the territory of Armenia is considered to be the object of taxation. For a non-resident the taxable income received only from Armenian sources, excluding incomes attributable to the former's permanent establishment in Armenia and incomes from foreign economic activities, is considered to be the object of taxation.

As a general rule, when incomes are payable to physical persons by a tax agent, the latter shall be obliged to calculate and withhold the amount of the income tax.

Different income tax rates are imposed by the law depending on the type of income payable, taxpayer's citizenship, etc.

The following rates should apply, except for certain types of incomes:

Monthly taxable income amount	Tax amount
Up to AMD 150,000	23% of taxable income
AMD 150,000-2,000,000	AMD 34,500 plus 28% of the amount exceeding AMD 150,000
Over AMD 2,000,000	AMD 552,500 plus 36% of the amount exceeding AMD 2,000,000

Amount of annual taxable income	Tax amount
Up to AMD 1,800,000	23% of taxable income
AMD 1,800,000-24,000,000	AMD 414,000 plus 28% of the amount exceeding AMD 1,800,000
Over AMD 24,000,000	AMD 6,630,000 plus 36% of the amount exceeding AMD 24,000,000

As an exception to the general rule:

- income tax on royalties and interests shall be calculated at the rate of 10%;
- income tax on salaries paid to residents for the works performed beyond the territory of Armenia by the resident tax agents within the framework of projects approved by the Government in the spheres of construction or installations (as specified in connection with profit tax incentives under "Profit tax") shall be calculated at the rate of 13%;
- dividends received by foreigners are taxable at the rate of 10% and the dividends received by Armenian nationals – at the rate of 5%;

- income tax on lease payments shall be calculated at the rate of 10% plus additional 10% only in respect of lease payments exceeding AMD 58.35 million during the tax year, etc.

For tax agents the reporting period in terms of income tax is a calendar month. Till the 20th of each month the tax agent should present to the tax authority relevant calculation of income tax for the previous month. The amount of income tax included in the relevant calculation should be paid by the tax agent within the same period.

Concurrently, the incomes not taxed by a tax agent as a result of absence of such agent which are not specified by the law as deductible incomes or incomes exempt from income tax, shall be declared by the taxpayer on annual basis.

The Armenian fiscal legislation provides also several tax incentives in respect of income tax, such as the right to fully deduct the following incomes from the taxable object:

- interests and other incomes (including in the form of discount upon maturity) received from state securities or bonds issued by the Panarmenian Bank, from any transaction (alienation, exchange) in connection with the given securities or investment securities;
- incomes from sale or exchange of shares, save for the case when those shares were paid through investment of real estate in the charter capital and the alienation of shares is to take place during the given tax year or consecutive 3 tax years;
- the amount of the monetary means and value of the property received as inheritance or a gift (from physical persons);
- amounts received in accordance with the law as a reimbursement for incurred damages, save for amounts received as a reimbursement for loss of profit.

Concurrently, the Armenian tax legislation provides a mechanism for paying back to employees the income tax withheld from their incomes in case the latter has obtained a mortgage loan from Armenian financial institutions for the purpose of purchasing an apartment directly from the

real estate developer or from the state or respective community within the framework of housing programmes, or for the purpose of building a private residence. If all the requirements are met (e.g. in terms of purchase price of the apartment), the income tax will be repaid on quarterly basis in the amount of interests paid in connection with the respective mortgage loan (not in excess of AMD 1,500,000 per each quarter).

Social payments

The new system of social payments has been in place since 01 July, 2014. The social payments are to be transferred to the state budget as targeted payments which will be directly dependent on the size of the pension to be received by a person in the future. The new system is applicable for persons born after 01 January, 1974.

The targeted payments imposed on the salaries shall be calculated at the following rates in consideration of the maximum monthly threshold for the social payments calculation object (these amounts shall be calculated and withheld by the tax agent):

Monthly salary	Social payment amount
Up to AMD 500,000	5%
Over AMD 500,000	10% deducted by AMD 25,000

The targeted payments imposed on the incomes from entrepreneurial activities shall be calculated at the following rates in consideration of the maximum annual threshold for the social payments calculation object:

Annual income	Social payment amount
Up to AMD 6,000,000	5%
Over AMD 6,000,000	10% deducted by AMD 300,000

Till 01 July, 2020 maximum monthly and annual thresholds for the social payments calculation objects will be equal to AMD 500,000 and AMD 6,000,000 accordingly.

This new system of social payments foresees also the obligation of the state to make social contributions in the benefit of the persons having paid social payments. These contributions shall be cumulated on the accounts of each social payment payer along with the amounts of social payments made by or in the benefit of the latter. In addition, as a result of legislative amendment which entered into force on July 01, 2018 the state assumed the obligation to pay the half of the social payment to be made for the employees (not in excess of AMD 12,500) up to the moment when the income tax rates applicable to employees are reduced.

Stamp fee

From 01 January, 2017 a new payment called “stamp fee” has been introduced to the Armenian legislation aimed at insuring the social wellbeing of soldiers injured while on active duty as well as that of the families of soldiers who died while performing their duties after 01 January, 2017. In this connection a special foundation was established responsible for the management of the collected funds and payment of compensations.

The stamp fees are to be paid by resident and non-resident physical persons performing works on the basis of employment contracts either in Armenia or abroad (applicable only in respect of residents), individual entrepreneurs registered in Armenia, public notaries, as well as by resident and non-resident physical persons performing/providing works/services on the basis of civil contracts and receiving incomes from sources situated either in Armenia or abroad (applicable only in respect of residents).

In case the abovementioned persons receive incomes from tax agents, the latter shall withhold the amount of the stamp fee and pay it to the state budget. In case the payer of the income does not act as a tax agent, the stamp fees shall be calculated and paid to the state budget by the respective physical person on his/her own.

The amount of the stamp fee is equal to AMD 1,000 per each reporting month for physical persons and AMD 12,000 per each reporting year for

individual entrepreneurs and public notaries. In case of absence of any incomes per the given reporting period no stamp fee shall be levied.

In case a physical person works on the basis of a single employment contract and his/her salary after withholding of applicable taxes and mandatory payments does not exceed the minimum salary amount specified by the law, the stamp fee shall be paid at the cost of the employer.

Tax agents shall pay the amount of stamp fee till the 20th of the month following the respective reporting period. In case the incomes are to be received from an entity not acting as a tax agent, the respective physical persons shall within the same period pay the amount of stamp fee on their own. Individual entrepreneurs and public notaries shall pay the amount of stamp fee within the same timeline as applicable to payment of profit tax.

Value added tax

Value added tax (VAT) is a type of indirect tax, which is imposed on certain transactions and operations, e.g. supply of goods, provision of services (including lease of property and transfer of intangibles) and import of goods under “release for domestic consumption” customs procedure, as well as import of goods from member states of the Eurasian Economic Union. As a general rule, organizations, individual entrepreneurs and notaries are considered as VAT payers in case they are not eligible for opting turnover tax regime or in case they have failed to submit respective declaration for being considered as turnover taxpayer or for application of family entrepreneurship system.



The rate of VAT is determined at 20% of taxable turnover of goods and services. The amount of VAT within the amount of the total indemnity for the goods and services (including 20% rate) shall be determined at the rate of 16.67 %. The exported goods and services are subject to VAT at the rate of 0%.

As regards non-commercial organizations and producers of agriculture products they shall be considered as VAT payers in case the turnover of

transactions taxable with VAT exceeded the threshold of AMD 58.35 million during the previous year or upon exceeding the given threshold during the reporting year or upon submitting a written declaration to the tax authorities for obtaining such status.

It should be noted that in case non-residents not having permanent establishment in Armenia carry out transactions taxable with VAT on the territory of Armenia their resident counterparties being VAT payers shall bear VAT liability on their behalf.

The Armenian fiscal legislation specifies the input-output model. A VAT payer accounts for output VAT after deducting VAT paid for the goods or services received (input VAT).

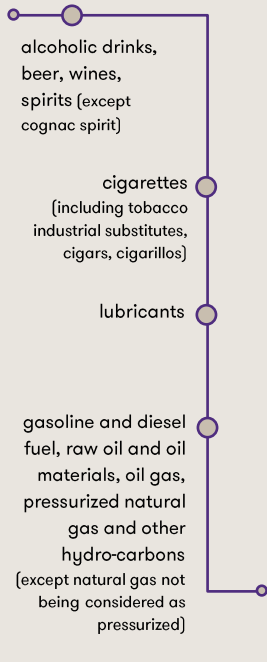
The reporting period is a calendar month. VAT payers are required to submit a unified calculation of VAT and excise tax for each reporting period. Those unified calculations must be filed and VAT amounts shall be paid within 20 days after the expiry of the reporting period.

For goods imported into Armenia under “release for domestic consumption” customs procedure, VAT shall be paid before release of goods under the said customs procedure. Concurrently, for goods imported into Armenia from member states of the Eurasian Economic Union, VAT shall be paid before the 20th of the month following the month during which the physical entry of those goods into the territory of Armenia has taken place. In case of import of goods within the framework of investment projects implemented by the organizations and individual entrepreneurs selected under the Government decision, the payment due date for VAT can be deferred for 3 year period.

It is worth noting that in addition to several tax incentives specified by the Tax Code, the latter envisages that the services provision to the organizer or operator of a free economic zone by the taxpayers, as well as supply of goods within the territory of such zone are exempt from VAT.

Excise tax

The following goods shall be subject to excise tax:



Excise tax shall be paid by individual entrepreneurs and legal entities importing (under “release for domestic consumption” customs procedure or from member states of the Eurasian Economic Union) or producing (bottling or otherwise packaging) and alienating goods subject to excise tax in Armenia or supplying compressed natural gas at NGV-refuelling compressor station.

The taxable base of the excise tax is either the price/customs value (in case of goods imported from member states of the Eurasian Economic Union – goods purchase price) of the abovementioned products or their quantity/volume expressed in physical units or the maximum retail price labelled on the package.

It should be noted that some products taxable with excise tax are subject to labelling, the list of which is specified by the Tax Code.

The amounts of the excise tax shall be calculated per each month and paid till the 20th of the following month. The calculated amount shall be reported to the tax authorities per each month till the 20th of the following month.

For goods imported into Armenia under “release for domestic consumption” customs procedure, the amount of excise tax shall be paid before release of goods under the said customs procedure. Concurrently, for goods imported into Armenia from member states of the Eurasian Economic Union, the amount of excise tax shall be paid before the 20th of the month following the month during which the physical entry of those goods into the territory of Armenia has taken place, save for those goods

which are subject to labelling (in this case the amount of excise tax shall be paid before their release by the customs authorities). Export of goods taxable by excise tax under “export” customs procedure, as well as their export to other member states of the Eurasian Economic Union are exempt from excise tax.

Property tax

Property tax is a direct tax on the property considered as a taxable object and does not depend on the outcomes of the taxpayers’ economic activity.

The property tax shall be paid by the organizations set up in Armenia or in other countries, international organizations and those created by them outside Armenia, citizens of Armenia, foreign citizens, as well as those without citizenship who have ownership right to a property in Armenia. It should be noted that absence of formal registration of ownership right to buildings under construction or to unauthorized buildings/constructions may not serve as a basis for exemption from property tax.

Buildings, constructions of residential use (apartments, villas, etc.), of public or production use, including unfinished buildings and buildings under construction, garages, motor vehicles, including motor cars, watercrafts, snowmobiles, four-wheelers and motorcycles are considered as taxable objects.

The taxable base for buildings and constructions is their cadastral value and for motor vehicles – engine power. Property tax is calculated at the following rates on annual basis:

Taxable object	Taxable base	Tax Rate
Cadastral value		
Buildings, constructions of residential use, unfinished buildings and buildings under construction	a) from AMD 3 mln. up to 10 mln. (inclusively)	a) AMD 100 plus 0.1% of the amount exceeding AMD 3 mln.
	b) from AMD 10 mln. up to 20 mln. (inclusively)	b) AMD 7,100 plus 0.2% of the amount exceeding AMD 10 mln.
	c) from AMD 20 mln. up to 30 mln. (inclusively)	c) AMD 27,100 plus 0.4% of the amount exceeding AMD 20 mln.
	d) from AMD 30 mln. up to 40 mln. (inclusively)	d) AMD 67,100 plus 0.6% of the amount exceeding AMD 30 mln.
	e) over AMD 40 mln.	e) AMD 127,100 plus 1% of the amount exceeding AMD 40 mln.
Garages	Cadastral value	0.2%
Buildings, constructions for public and production use	Cadastral value	0.3%
Horsepower		
Motor cars with up to 10 passenger seats	a) from 1 to 120	a) AMD 200 per horsepower
	b) from 121 to 250	b) AMD 300 per horsepower plus AMD 1,000 per each horsepower above 150
	c) over 251 (inclusively)	c) AMD 500 per horsepower plus AMD 1,000 per each horsepower above 150
Motor cars and trucks with 10 and more passenger seats	Horsepower	
	a) from 1 to 200	c) AMD 100 per horsepower
	b) over 201 (inclusively)	a) AMD 200 per horsepower
Motorcycles	Horsepower	AMD 40 per horsepower
Watercrafts, snowmobiles, four-wheelers	Horsepower	AMD 150 per horsepower

The reporting period in terms of property tax payable by physical persons is the calendar year. The law specifies the principle of voluntariness for submission of property tax returns by physical persons (deadline – October 01 of the reporting year). Concurrently, it is worth noting that the local authorities are obliged to send notifications to physical persons on the amount of their tax liabilities. The annual amount of the property tax shall be paid by physical persons till December 01 of the reporting year.

The reporting period in terms of property tax payable by organizations is the half-year period. The relevant returns shall be submitted till 20th of the month following the respective half-year period. The amount of the property tax shall be paid by organizations in the same timeline.

The following tax incentives are inter alia stipulated by the Armenian legislation in respect of property tax:

- in case the cadastral value of the relevant construction of residential use does not exceed AMD 3 million (inclusively), the property tax shall be calculated at the rate of 0%;
- constructions of public or production use which are situated on the territory of a free economic zone and belong to the operators of a free economic zone or are being used by the latter are exempt from property tax;
- the amount of property tax on motor vehicles used for more than three years is reduced for each year following the third year by 10% but no more than 50% of the tax amount.

Land tax

Landowners, permanent users of the state-owned land (physical persons, organizations) are considered payers of land tax. In case of land lease the amount of the land tax shall be paid by the lessor. The amount of the land tax shall not depend on the results of the taxpayer's economic activity and is defined as an annually paid fixed payment per unit of the land lot area.

The calculated net income determined by the cadastral evaluation of the land shall be the taxable base for agricultural lands. The cadastral value of the land shall be the taxable base for non-agricultural lands.

Taxable object	Taxable base	Tax Rate
Agricultural lands (including land lots allotted for housing in settlements and garden-plots)	Calculated net income	15%
Lands used for the purposes of industry, transport, communication, defence, water reserve lands	Cadastral value	a) inside the settlements -1%, b) outside the settlements - 0.5%
Lands of forestry fund	Average cadastral value of unused lands	1%
Other non-agricultural lands	Cadastral value	1%

The reporting period in terms of land tax payable by physical persons is the calendar year. The local authorities are obliged to send notifications to physical persons on the amount of their tax liabilities. The annual amount of the land tax shall be paid by physical persons in two equal instalments: the 1st instalment should be paid till November 15 of the reporting period, and the 2nd instalment - till April 15 of the following year.

The reporting period in terms of land tax payable by organizations is the half-year period. The relevant returns shall be submitted till 20th of the month following the respective half-year period. The amount of the land tax shall be paid by organizations in the same timeline.

The following tax incentives are inter alia stipulated by the Armenian legislation:

- in case the area of newly planted and young vineyards and fruit gardens is equal to 0.1 ha or is greater, no land tax shall be paid for such lands till complete fruitfulness of plantlets;
- for those lands, which are used exclusively for scientific and educational purposes, as well as for the purposes of testing the sorts of

agricultural and forest cultures, the land tax shall be paid in the amount of 50%.

Special taxation systems

The Armenian fiscal legislation specifies the following special taxation systems:

- system of patent tax within the framework of which:
 - patent tax is payable by individual entrepreneurs and organisations implementing certain activities specified by the Tax Code;
 - patent tax substitutes profit tax and/or VAT for organisations and only VAT for individual entrepreneurs;
 - patent tax is calculated per each month of the period specified in the declaration for payment of patent tax submitted by the respective organisation or individual entrepreneur according to the following formula: monthly fee specified by the Tax Code (variable depending on the geographical area of implementation of respective activities (relevantly higher monthly fees are applicable in the capital)) multiplied by (i) the relevant initial data specific for the respective activity, (ii) the adjustment ratios specified by the Tax Code (variable depending on location advantage, etc.) (iii) the coefficient which is in general equal to 1 in case the reporting period includes 1 month; in case the reporting period includes several months this coefficient shall be reduced by product of 0.02 and the number of months included in the reporting period, (iv) the number of months included in the reporting period.
- system of turnover tax within the framework of which:
 - turnover tax is payable by individual entrepreneurs, notaries and commercial organizations considered to be as residents (organizations registered in Armenia) having submitted to the tax authorities their written declaration to obtain such status, excluding those taxpayers:
 - i revenue for the previous year of which exceeded AMD 58.35 million;
 - ii activities of which are taxed by patent tax (excluded only in respect of such activities);

- iii who are considered to be excise tax payers;
 - iv who are conducting activities in the sphere of financial, insurance, investment, audit services, etc.;
 - v who are considered to be affiliated by virtue of the provisions of the Tax Code, save for certain cases, or on the basis of the decision of the head of the tax authorities and the total amount of their revenues was/is in excess of AMD 58.35 million during the previous or current tax year;
 - vi the turnover taxpayer has committed the third violation of the rules on operation of cash register machines within 1 calendar year;
 - vii who are parties to a joint venture agreement, a commission agency agreement for goods provision or to an agency agreement specifying a condition to act on behalf of the agent;
- turnover tax substitutes profit tax and/or VAT for commercial organizations and only VAT for individual entrepreneurs and notaries;
 - turnover tax shall be calculated by applying the below mentioned relevant rate to the amount of the turnover being tax base (in certain cases some deductions from the amount of calculated turnover tax are available);



5%

trading

(a reduced rate equal to 1.5% may be applicable upon meeting certain criteria)



3.5%

production activity



1.5%

sale of newspapers
by publishers



20%

notary activity



10%

rental income,
interest, royalties, real
estate alienation



25%

lottery organizing



6%

public catering



20%

sale of other assets by
turnover tax payers
engaged in public
catering



5%

other activity

-
- system of family entrepreneurship within the framework of which:
 - are eligible those individual entrepreneurs who perform their activities exclusively through their family members;
 - are eligible those resident commercial organisations the charter capital of which wholly belongs to one or more family members and which perform their activities exclusively through shareholders' family members;
 - the revenues of eligible taxpayers should not have exceeded AMD 18 million for the previous tax year;
 - taxpayers are exempt from all state taxes, including in the quality of a tax agent, save for certain exceptions (e.g.no exception is available upon import of goods in the territory of Armenia).

Customs affairs

Taking into account that on 02 January, 2015 Armenia became one of the member states of the Eurasian Economic Union ((EAEU), which currently comprises also Belarus, Kazakhstan, Russia and the Kyrgyz Republic)), customs affairs in Armenia are currently regulated not only by the local Armenian legislation, but also by the legal acts of the said Economic Union. According to these documents the territories of all the member states of the Eurasian Economic Union constitute one unique customs territory and goods imported into any of the abovementioned states being cleared through customs, as well as goods produced within such state may freely circulate within the customs territory of the EAEU without any customs clearance procedure in any other member state. In such case, certain documents may be required to be submitted only for tax purposes.

The customs legislation of the Eurasian Economic Union is comprised of the following legal acts:

Treaty on the Customs Code of the Customs Union approved by Decision No. 17 of the superior body of the Eurasian Economic Union as of 27 November, 2007

International agreements of the member states of the Eurasian Economic Union

Decisions on customs matters approved by the Commission of the Customs Union established within the Eurasian economic community

The issues which according to the customs legislation of the EAEU are regulated by the local customs legislation of the member state shall be regulated in Armenia by the Law “On Customs Regulation” adopted as of 17 December, 2014, as well as by certain chapters of the Customs Code of RA adopted as of 06 July, 2000 (this chapters will remain in force only during the timeframes specified by the Law “On Customs Regulation”).

Implementation of the Armenian customs policy is entrusted to the customs bodies of the State Revenue Committee adjunct to the Government.

For customs purposes, the goods carried across the customs border of the Eurasian Economic Union are classified under the Foreign Economic Activity Commodity Nomenclature (FEACN) approved by the Commission of the Customs Union established within the Eurasian economic community which is a coding and designation system allowing the identification of goods and defining the rates for customs charges. FEACN is based on the Harmonized Commodity Description and Coding System generally referred to as “Harmonized System” or simply “HS” developed by the World Customs Organization (WCO).

Customs charges

Goods and vehicles carried across the customs border of the EAEU shall be subject to imposition of customs charges, including:

Import/export customs duties:

- are levied for carrying goods across the customs border either at percentage applied to the customs value of the respective goods or at fixed rates applied per measurement unit of the relevant goods;
- in case of goods being exported from Armenia, export duties are levied at 0%, unless otherwise specified by the laws of Armenia;
- in case of goods being imported into Armenia, the rates specified by the unified tariff policy of the Eurasian Economic Union depending on the relevant code under the FEACN shall be applied, unless otherwise specified by the international agreements of the member states (e.g. for certain goods some exceptions are available for Armenia);
- are to be paid within specific period of time depending on the customs procedure being applied to the respective goods.

Customs fees are mandatory for performing customs formalities in respect of the goods carried across the customs border and are levied in amounts specified by the local legislation of the respective member state.

Taxes, particularly:

- **value added tax (VAT)** imposed on import of goods under “release for domestic consumption” customs procedure and payable before the

release of the respective goods under the said customs procedure (for details please see “Value added tax” under chapter “Fiscal system”);

- **excise tax** imposed on import of certain type of goods under “release for domestic consumption” customs procedure and payable before the release of the respective goods under the said customs procedure (for details please see “Excise tax” under chapter “Fiscal system”);
- **nature protection tax** (i) imposed in case of import of goods being hazardous for the environment (e.g. raw oil and oil materials, tyres, etc.) and subject to payment before completing customs formalities or during their completion, or (ii) levied for ejection of harmful substances into the air basin in case of entering Armenia by vehicles registered in foreign countries which are payable upon their entry;
- **road tax** levied for the use of state public roadways in case of entering Armenia by vehicles registered in foreign countries and payable per each 15-day period of travelling time in Armenia; payment of road tax for the 1st 15-day period shall be made upon the entry of the relevant vehicles into Armenia.

In certain cases, sureties for payment of the respective customs charges may be requested.

Customs procedures

Goods and vehicles might be carried across the customs border of the EAEU upon their declaration under the relevant customs procedure specified below:

- | | | |
|--|--|---|
| • release for domestic consumption; | • processing for domestic consumption; | • abandonment to the benefit of the state; |
| • export; | • temporary import; | • free customs zone; |
| • customs transit; | • temporary export; | • free warehouse; |
| • customs warehouse; | • re-import; | • special customs procedure (applicable for certain categories of goods). |
| • processing within the customs territory; | • re-export; | |
| • processing beyond the customs territory; | • duty free shop; | |
| | • destruction; | |

Useful links

President	www.president.am
National Assembly	www.parliament.am
Government	www.gov.am ; www.e-gov.am
Constitutional Court	www.concourt.am
Court system	www.court.am
Central Bank of Armenia	www.cba.am
Customs Service	www.petekamutner.am
Tax Service	www.petekamutner.am
Ministry of Economic Development and Investments	www.mineconomy.am ; www.investmentprojects.am
Ministry of Finance	www.minfin.am
Ministry of Defence	www.mil.am
Ministry of Diaspora	www.mindiaspora.am
Ministry of Foreign Affairs	www.mfa.am
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Ministry of Education and Science	www.edu.am
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Ministry of Nature Protection	www.mnp.am
Ministry of Agriculture	www.minagro.am
Ministry of Energy Infrastructures and Natural Resources	www.minenergy.am
Ministry of Labour and Social Affairs	www.mlsa.am

Ministry of Transport, Communication and Information Technologies	www.mtc.am
Ministry of Territorial Administration and Development	www.mtad.am
State Register Agency of Legal Entities	www.e-register.am
State Committee of Real Estate Cadastre	www.cadastre.am ; www.e-cadastre.am
National Institute of Standards	www.sarm.am
National Statistical Service	www.armstat.am
Armenian Yellow pages	www.spyur.am
United Nations Organization (UN)	www.un.am
International Monetary Fund (IMF)	www.imf.org/external/country/arm/rr/index.htm
The World Bank (WB)	www.worldbank.org/en/country/armenia
European Bank for Reconstruction and Development (EBRD)	www.ebrd.com/pages/country/armenia.shtml
Council of Europe	www.coe.am/?out_lang=eng
World Trade Organization (WTO)	www.wto.org/english/thewto_e/countries_e/armenia_e.htm
Commonwealth of Independent States (CIS)	cis.minsk.by/page.php?id=212
North Atlantic Treaty Organization (NATO)	www.nato.int/cps/en/natohq/topics_48893.htm
World Customs Organization (WCO)	www.wcoomd.org
Eurasian Economic Union	www.eaeunion.org/?lang=en

Contact details

8/1 Vagharshyan street
0012 Yerevan, Armenia
T +374 10 260 964
F +374 10 260 961
E gta@am.gt.com

Piazza Grande, Suite 109, 1st floor
10 V. Sargsyan str.
0010 Yerevan, Armenia
T +374 10 545 148
F +374 10 545 149
E legal@am.gt.com

www.grantthornton.am



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