

**ENTEPRISE INCUBATOR FOUNDATION**

**HOW TO DO BUSINESS  
IN  
ARMENIA**

**YEREVAN  
2005**

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## **CHAPTER 1. GENERAL INFORMATION**

Since independence declared in 1991, the Republic of Armenia has been going through a comprehensive economic and political reform process. The Government has initiated an extensive privatization program, including many of the major state-owned enterprises. An ongoing legal reform resulted in a restructuring of the country's judiciary system, and numerous new laws and regulations have been passed—including a new Constitution—to develop a more open and market-oriented business environment. Economic stabilization measures ended a devastating inflationary spiral and brought the exchange rate back under control. All these efforts are beginning to pay off: economic growth is relatively strong and stable.

Relative to most other CIS countries, Armenia also compares favorably in terms of FDI inflows on a per capita basis. Furthermore, different from most other countries, Armenia has a very sizeable diaspora living abroad— primarily in the Middle East, the United States, Russia and Western Europe, which certainly form a potential pool of investors who might be more willing to invest capital in their home country.

Armenia was one of the most industrialized republics of the former Soviet Union (FSU) with main industry sectors of mechanical engineering, electronics, light, chemical, and energy industries. The high degree of integration into the Soviet centrally controlled economy induced economic collapse when the inter-FSU trade, payment and financial systems broke down. Nevertheless, Armenian industry inherited qualified engineer and worker personnel, physical infrastructure (airways, roads, railways, and telecommunication), generally adequate manufacturing facilities coupled with scientific and design institutions, and a reputation as a reliable partner.

### **Geography, Climate, Time Zone**

Armenia, Hayastani Hanrapetoutyun or Hayastan is located in South Caucasus region of Eurasia continent with an area of 29,800 square kilometers (11,500 square miles). Armenia is bordered by Turkey to the west, Georgia to the north, Iran to the south, and Azerbaijan to the east and southwest. The capital of the country is Yerevan.

The terrain is Armenian Highland with mountains with the average elevation above sea level of 1,800 meter (5,900 feet); little forestland; fast flowing rivers. The chief agricultural and industrial region is the Araks River valley. Irrigated fields produce wine grapes--the most important crops--figs, pomegranates, cotton, and fruits. In higher altitudes grains, sugar beets, tobacco, potatoes, and hay are grown and cattle, sheep, and goats are pastured.

Mountains preclude influence from nearby seas; temperature and precipitation generally determined by elevation: colder and wetter in higher elevations (north and northeast).

The whole Republic of Armenia observes Yerevan time, which is 4 hours fast on GMT.

### **Population, Language, Religion**

According to the Armenia's first census conducted in October 2001 official population is 3.2 million with the composition of Armenian 95%; Kurd 2%; Russian, Greek, and other 3%. Urban population rate is about 68%. One third of the total population lives in the capital city of Yerevan. There are 27 cities, 31 towns, and 921 villages with the population density ranging from 17 to 330 per sq. kilometer. Armenia's administrative structure consists of 10 districts and the city of Yerevan, which has a district status. Official language is Armenian; country population is also fluent in Russian and proficient (especially in Yerevan) in English.

The State Flag is a rectangular panel with three equal horizontal stripes of red, blue and orange (from top to bottom).

More than 90% of the Armenians belong to the Armenian apostolic church, an independent church. Armenia was the first country to officially adopt Christianity as its State religion in 301 A.D. At the head of the church is the Catholicos of all Armenians, who lives in Holy See of Etchmiadzine, the center of Armenian Apostolic Orthodox Church.

### **The Government System**

Armenia belongs to the family of Civil law countries, where only normative acts are a source of law. The Ministers, as well as Heads of government agencies which have ministry status, are entitled to issue normative instructions within their mandates. Besides, the President, the Government and the Prime Minister, as well as the Ministers are endowed with the right to issue implementing decisions that are not normative acts. The Constitution is the supreme law of Armenia; it regulates the most fundamental spheres of public life and is adopted and amended by public referendum.

- a. *The President* - The Republic of Armenia has a system of presidential rule. In accordance with the Constitution, the President ensures compliance with the Constitution, the normal operation of the legislative, the executive and the judiciary, and serves as the guarantor of sovereignty, territorial integrity and security of the Republic. The President is elected by the citizens of the Republic of Armenia for a five-year term. Robert Kocharyan is the current President of the country has been elected in 1998 and re-elected in 2003.
- b. *The Government* -The executive power in the Republic of Armenia belongs to the Government of the Republic. The Government is composed of the Prime Minister and the Ministers. The President of the Republic appoints and removes the Prime Minister of the Republic. The President also appoints and removes all members of the Government nominated by the Prime Minister.
- c. *The National Assembly* - Legislative power in the Republic of Armenia belongs to the National Assembly. The National Assembly is a single-chamber representative 131-seat body, of which 75 are elected from single-mandate districts and 56 by party list. The National Assembly is convened twice a year: spring session (early February-late June) and fall session (late September-late December). Extraordinary sessions may be convened at the discretion of the Presidium of the National Assembly, a third of the deputies, the President of the National Assembly, the President of the Republic. The current Parliament formed six permanent committees. Last parliamentary elections took place in May 2003.
- d. *The Legal System* - In the Republic of Armenia justice is carried out by Courts in accordance with the Constitution and the Law. In Armenia the courts of general competence are: courts of first instance, review courts and the Court of Appeals. There are also economic, military and other courts provided by the Law. The President of the Republic serves as a guarantor of independence of judicial bodies. He is the Head of the Council of Justice.

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Normative acts are binding legal acts that regulate different areas of social interaction.

## **People, Cultural and Social Life**

Armenians are polite and hospitable people who live in close-knit communities. We treat each other with respect and courtesy, as long as both parties act in a humble manner and stay within their social and intellectual boundaries.

Theatre, cinema, music and the arts are important parts of Armenian life. To gain further insights into Armenian cultural achievements one must visit her museums, theaters and concert halls. Theater in Armenia has a tradition dating back more than 2,000 years. Wide choice of performances ranging from concerts to Puppet Theater and jazz music are available.

Yerevan's architectural character stands out in that of the most of the buildings are constructed of various colors of tufa and basalt, both of them products of volcanic nature. This makes Yerevan one of the few cities with no painted buildings. The city is enshrined with many internationally acclaimed statues by famous sculptors, such Yervand Kochar, Levon Tokmadjian. Most of the statues depict Armenian national heroes or glorify events of national importance.

Many of the 40,000 surviving ancient monuments in Armenia are Christian churches and monasteries, most of which were built over demolished pagan temples. Hence, only one pagan temple remains in Armenia, Garni.

Armenians also spend a considerable amount of their leisure time at the homes of friends and relatives, as they place great importance on friendship and family. Thus, anniversaries, birthdays and other occasions are celebrated with more passion than expatriates may be used to at home.

## **Educational System**

Education is compulsory through secondary school. Literacy estimated at 99% percent, of which 15.4% has eight years of education, 44.6% has ten years and background in a trade, and 13.1% has a higher education degree. There are 25 public institutions of higher education in Armenia (including seven colleges), with 26,000 students attending. There are also 40 private educational institutions with a total of 14,000 students.

The leading educational institutions, such as Yerevan State University, State Engineering University of Armenia, Yerevan State Medical University, the Armenian Academy of Agriculture, Yerevan State Institute for Russian and Foreign Languages, and Yerevan Komitas Conservatory, have been recognized for their outstanding achievements in their fields.

## **Miscellaneous**

1. Currency and Payments - The Dram (1 AMD = 100 luma) is the national currency of the Republic of Armenia introduced in 1993. Both banknotes and coins are available for circulation, with nominal values of 10, 25, 50, 100, 200, 500 (banknotes and coins), 1000, 5000, 10000, 20000 and 50000 (banknotes). The average official exchange rate for November 2005 was about 445 Armenain Dram to 1 US dollar. The Central Bank of Armenia is entitled to an exclusive right of issuing the national currency, organizes and regulates cash circulation in Armenia. Banks and hotels accept all major convertible currencies. All banks and most of the shops and hotels accept credit cards such as Visa and Master Card.
2. Business Hours - Normal business hours are 9.00 am to 6.00 pm from Monday to Friday. Banks are generally open from 9.00 am to 3.00 pm from Monday to Friday. Some commercial banks are open on Saturday mornings. The whole Republic of Armenia observes Yerevan time, which is 4 hours fast on GMT.

3. Statutory Holidays - In Republic of Armenia there are eleven major public holidays and memorial days: 31 December - 2 January - New Year; 6 January - Christmas; 28 January - Army Day, 8 March - Women's Day; 7 April - Mothers' Day; 24 April - Armenian Genocide Memorial Day; 1 May - Labour Day; 9 May - Victory and Peace Day; 28 May - First Republic Day; 5 July - Constitution Day; 21 September - Independence Day.
4. Weights and Measures – Armenia uses metric system.
5. Dates and Numbers - Armenia uses the Western (Gregorian) calendar. Dates are written in the day, month, and year format e.g., 17/11/03 (17 November 2003). In writing numbers, a comma generally represents a decimal fraction, but there is no fixed rule.
6. Power Supply - 220 Volt, 50 Hz alternating current
7. Visas - The Republic of Armenia is a member of the Commonwealth of Independent States (CIS). CIS citizens can use their national passports to visit Armenia. The citizens of these countries of these countries must obtain an entrance visa at the Armenian embassies in their countries or immediately upon arrival, as well as may use e-visa on-line system of the Ministry of Foreign Affairs. The process of visa issuance usually takes from 3 to 7 days, and is processed by the nearest Armenian embassy or consulate.

## CHAPTER 2. ECONOMIC PROFILE OF ARMENIA

### General facts

Efforts in economic and political reform can be traced to early 1991, when land reform and small-scale privatization began. By 1993, the dram replaced the ruble and other provisional substitutes as the country's official currency. April 1995 marks the beginning of large-scale privatization and liberalization of most prices, as well as the adoption of a bankruptcy law. Another wave of reforms took place in 1997-1999 and work continues in a number of areas to create the legal and regulatory framework for a market economy.

Current circumstances in Armenia are not without promise, however. Despite the harsh conditions, the economy is growing steadily. The Armenians continue to overcome enormous challenges to the survival and integrity of their homeland, culture and freedom.

Armenia was included in a list of countries with a high degree of economic freedom in 2003 occupying 44th place according to the annual survey "Index of Economic Freedom" conducted by the Heritage Foundation / the World Street Journal. In 2005 Armenia occupies 42nd place<sup>2</sup>.

The country's economy is characterized by explicit disproportions - particularly in regard to the maximum and minimum amounts of quarterly GDPs, which differ from each other approximately by a factor of four. This can be explained by the significant size of agriculture in the GDP structure. In the Soviet era, it constituted 12-12.5%<sup>3</sup>, whereas during the transition years it amounted to 43% maximum and 22.5% minimum<sup>4</sup> (registered in 2000 as the result of a serious drought). The structure of GDP is highly differentiated by regions. Economic activity is concentrated in the capital city. Yerevan's retail trade volume exceeded the average indicator for the Republic by a factor of 2.4; in services it exceeded by a factor of 2.2<sup>5</sup>.

The negative balance of foreign trade that represents one of the national economy's least desirable factors, is now diminishing due to in-country production of high quality commodities that are substituting the imports and increasing export volume. In 1990 Armenia did not have foreign debt, whereas by the end of 2000 it had accumulated USD 862.5 million in debt<sup>6</sup>.

### Key Figures

#### a) *The national economy: Macroeconomic performance and economic growth*

A steady macroeconomic environment of the recent years allows expecting a normal long-run pace of economic developments and an ability to delineate their trends more precisely. The 13% economic growth in 2002 has twofold exceeded the average annual economic growth of the last decade. All sectors of the economy reported real growths. The growth rates of the industry were momentous for 2002 as these were excessive in relation to the growth rates of the economy. Whereas, the economic growth rates in the last years had been increasingly dominant over the

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<sup>2</sup> [www.heritage.org/index](http://www.heritage.org/index)

<sup>3</sup> National Economy of Armenian SSR 1988, 1989, 1999, State Committee of Statistics of ASSR (The structure of GNP is given, its methodology is somewhat different from GDP)

<sup>4</sup> Socioeconomic conditions in January-December 2000, National Statistics Service of Armenia

<sup>5</sup> Social Picture and Poverty, Statistical Analytical Report, Yerevan 2001, National Statistics Service of Armenia

<sup>6</sup> Monetary Policy Program of the Central Bank of Armenia

growth of industrial output<sup>7</sup>. The GDP grew mainly due to growth in construction (with a 6 percentage points influence on the GDP growth), industry (4.7) and services (3.0).

While GDP and per capita incomes remain low, Armenia has succeeded in generating high real GDP growth rates since the mid-1990s. These have averaged 7.7 percent (on an unweighted basis) per year from 1995-2003, with particularly strong growth rates recorded in 2001-03. This has been accompanied by several favorable trends and indicators, including declining fiscal deficits relative to GDP, rising export earnings, and declining current account deficits as a share of GDP. The following table highlights some key macroeconomic indicators since 1998.

**Table 1: Macroeconomic Indicators (1998-2004)**

(\$ in millions)	1998	1999	2000	2001	2002	2003	2004
GDP	\$1,892	\$1,845	\$1,912	\$2,118	\$2,367	\$2,796	\$3,151
Real GDP Growth	7.3%	3.3%	6.0%	9.6%	12.9%	13.9%	7.0%
PPP Per Capita Income	\$2,080	\$2,210	\$2,420	\$2,730	\$3,230	\$3,770	N/A
Average Inflation Rate	8.7%	-0.2%	-1.5%	3.9%	2.2%	4.7%	3.0%
DRAM to \$1 (Average)	504.92	535.06	539.53	555.08	573.35	578.76	N/A
Real Effective Exchange Rate +/-		6.5%	-7.8%	-1.9%	11.3%	-2.7%	N/A
Fiscal Deficit/GDP	-4.9%	-7.4%	-6.4%	-3.6%	-0.4%	-1.2%	-2.0%
Exports of Goods and Services	\$359	\$383	\$447	\$529	\$689	\$884	\$990
Private Transfers (Remittances)	\$65	\$80	\$86	\$102	\$119	\$135	\$155
Current Account/GDP	-22.1%	-16.6%	14.5%	10.0%	-6.6%	-7.2%	-5.8%
Foreign Direct Investment	\$221	\$122	\$104	\$70	\$111	\$136	\$98
<i>Notes: 2004 figures are projections consistent with programmed targets; average inflation rate is GDP deflator; fiscal deficit is commitment basis, not cash basis</i>							
<i>Sources: IMF, Central Bank of Armenia, World Bank, EBRD</i>							

After a difficult period for the industrial sector, industry appears to be gaining competitiveness. Like its counterparts in several CIS economies, Armenia experienced a difficult period in the industrial sector characterized by layoffs, severe under-utilization, ineffective restructuring exercises, and disappointment in attracting investment and know-how for turnaround. However, aggregate industrial output along with the industrial sector's share of GDP have both been increasing in recent years. According to National Statistics Service, the industrial sector accounted for 21 percent of GDP in 1999, or about \$390 million. This has steadily risen in dollar value to \$558 million, although the industrial share of GDP at market prices was estimated to be only 20 percent as of 2003.<sup>8</sup> Sectors that have done comparatively well in recent years are consumer goods, food processing, beverages, non-precious metals (metallurgy), polished diamonds (jewelry production), and mining. Some building materials, home furnishing, and construction implement categories have shown growth due to the construction boom of the last two to three years (e.g., road construction, housing). The role of foreign investment has been helpful in some of the mining and manufacturing sectors, whereas non-investment (grant)

<sup>7</sup> CBA, The Macroeconomic Developments in the Republic of Armenia

<sup>8</sup> By contrast, the World Bank puts these figures at 32 percent of 1999 GDP, or \$591 million. According to the Bank, this has since risen to about 41 percent of GDP in 2003, or equivalent to about \$1,146 million in output.

financing from the Lincy Foundation has been a major source of funding for road and other construction.

Services have shown growth as well in Armenia, a trend that is economies around the globe. According to NSS, services continue to show steady growth as a share of overall GDP. In percentage terms, services have increased from about half of GDP in 1998 to 60 percent in 2003. This has translated into a value increase from \$931 million in 1998 to \$1,648 million in 2003. Key drivers for growth are expected to be transport and telecommunications, retail trade, real estate development, and potentially financial services.

**Table 3: Economic Structure (1999-2004)**

<i>(millions USD)</i>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Agriculture	\$497.5	\$443.7	\$541.0	\$556.0	\$598.0
Industry	\$390.4	\$418.1	\$425.9	\$448.1	\$557.9
Services	\$957.5	\$1,049.7	\$1,151.5	\$1,372.2	\$1,648.9
Financial Services	\$39.0	\$35.7	\$39.8	\$36.1	\$37.3
Construction	\$153.2	\$197.1	\$205.7	\$300.4	\$435.7
Transport/Communications	\$139.8	\$138.1	\$148.6	\$145.9	\$164.3
Trade	\$166.4	\$179.7	\$215.2	\$251.2	\$300.1
Government/Social Services	\$314.4	\$333.0	\$344.7	\$402.6	\$446.1
Other	\$144.7	\$166.1	\$197.5	\$236.0	\$265.4
<b>TOTAL GDP at Market Prices</b>	<b>\$1,845</b>	<b>\$1,912</b>	<b>\$2,118</b>	<b>\$2,367</b>	<b>\$2,796</b>
<i>As percent of GDP at Market Prices:</i>					
Agriculture	27.0%	23.2%	25.5%	23.4%	21.3%
Industry	21.2%	21.9%	20.1%	18.9%	19.9%
Services	51.9%	54.9%	54.4%	57.7%	58.8%
Financial Services	2.1%	1.9%	1.9%	1.5%	1.3%
Construction	8.3%	10.3%	9.7%	12.6%	15.5%
Transport/Communications	7.6%	7.2%	7.0%	6.1%	5.9%
Trade	9.0%	9.4%	10.2%	10.6%	10.7%
Government/Social Services	14.7%	17.0%	17.4%	16.3%	16.9%
Other	7.8%	8.7%	9.3%	10.0%	9.5%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<i>Notes: dollar figures derived from NSS sector GDP figures; Financial Services are credit and insurance based on National Statistical Service figures</i>					
<i>Sources: National Statistical Service, IMF, World Bank</i>					

Overall productivity has increased significantly in the industrial sector, while there have been more recent productivity gains in agriculture after a decline in 1999-2000. Meanwhile, services have shown fairly consistent increases through 2001, and then a leveling of individual productivity in 2002. The real gains have shown up in the industrial sector, with per capita output about 1.7 times the overall average. The following table highlights employment, productivity and labor force trends.

**Table 4: Employment, Productivity and Labor Force Trends (1998-2003)**

	1998	1999	2000	2001	2002	2003
<b>Total Employed by Sector</b> ( <i>thousands</i> ):						
Agriculture	567.8	562.4	566.7	570.0	500.8	
Industry	209.4	195.2	179.7	169.6	143.1	
Services	560.1	540.6	531.3	525.3	638.0	
TOTAL EMPLOYED	1,337.3	1,298.2	1,277.7	1,264.9	1,281.9	
<b>Proportional Share of Employment by Sector:</b>						
Agriculture	42.5%	43.3%	44.4%	45.1%	39.1%	
Industry	15.7%	15.0%	14.1%	13.4%	11.2%	
Services	41.9%	41.6%	41.6%	41.5%	49.8%	
TOTAL EMPLOYED	100.0%	100.0%	100.0%	100.0%	100.0%	
<b>GDP per Employee per Sector:</b>						
Agriculture	\$1,028.0	\$884.6	\$783.0	\$949.1	\$1,110.2	
Industry	\$1,797.2	\$2,000.3	\$2,326.6	\$2,510.9	\$3,131.5	
Services	\$1,664.3	\$1,771.2	\$1,975.8	\$2,192.1	\$2,150.8	
WEIGHTED AVERAGE	\$1,414.9	\$1,421.6	\$1,496.1	\$1,674.8	\$1,853.8	
<b>General Demographic and Labor Figures:</b>						
Total Population	3,798,200	3,803,400	3,213,000	3,213,000	3,210,800	3,212,200
Working Age Population	2,245,800	2,283,500	2,350,700	1,932,600	1,968,100	N/A
Total Labor Force	1,476,400	1,462,400	1,447,200	1,411,700	1,415,600	1,236,400
Registered Unemployed	139,100	164,200	169,500	146,800	133,700	124,800
Unemployment Rate	9.4%	11.2%	11.7%	10.4%	10.8%	10.1%
Pensioners	512,200	520,000	499,900	427,500	425,900	N/A
<i>Notes:</i> In GDP per Employee per Sector, taxes are not included as part of Government employees' output measure						
<i>Sources:</i> National Statistical Service						

### **Natural Resources**

The age-old process of volcanic and tectonic activity that took place on the Armenian plateau, created in its depths an unusual geological museum. The rocks composing the earth's crust are also embedded in its depths. Armenia has iron, copper, molybdenum, and polymetallic ores containing rare earth elements and gold, silver, lead, and zinc. There are deposits of nephelin for use as raw material in the production of aluminum and manganese deposits.

*Iron Ores:* There are two significant deposits of iron ore that are of great industrial importance, estimated to contain 400 million and 150 million tons respectively. The iron ores of these deposits are complex. In addition to the main component of iron, they contain valuable rare earth elements of the cerium and yttrium group, as well as dispersed elements of germanium, gallium, thallium, niobium, and tantalum. The Hrazdan deposit also contains zirconium.

*Nonferrous and Precious Metals:* Armenia has a strong mineral resource base of copper molybdenum ores. Explored deposits of the world-renowned Kadjaran copper molybdenum ores are a potential source for the next 100 years. Connected with the indicated type of copper molybdenum ores are the explored and estimated reserves of molybdenum. The substantive part copper reserves (90 percent) rare and dispersed elements (rhenium, selenium, tellurium, bismuth, and germanium), and certain parts of accompanying precious metals of gold and silver. Molybdenum and copper are the main components of the complex copper molybdenum ores.

*Lead and Zinc:* The lead and zinc ores are the second most common in Armenia after copper molybdenum and proper copper. In the lead-zinc, copper-zinc, and complex gold-polymetallic ore deposits, the average content of lead is 1.5 to 3 percent; zinc is 2 to 6 percent, and copper, 0.5 to 1 percent. These ores also contain valuable rare elements as cadmium, bismuth, indium and selenium.

*Gold and Silver:* The deposits of the mentioned ores of nonferrous metals are characterized by a considerable content of precious metals making the deposits industrially important. There are proper gold ore deposits in Zod, Meghradzor and Terterasar.

The Armenian volcanic and segmentary rocks are a useful building material. Particularly exceptional is the white, pink, orange, and black tufa all of which are light, durable, and easily processed. They serve as a main construction and decoration material. The estimated reserve of the feizite tufa in Armenia is 3 billion cubic meters. The country has abundant deposits of marble, granite, high quality travertine and limestone and small deposits of clay gypsum (the raw material for gypsum). There are also deposits of rich natural mineral sorbents such as bentonite, perlite, zeolit and diatomite.

Armenia is rich with semiprecious and ornamental stones such as the jewelry agates, jasper, amethyst, serdoliks, turquoise, and different types of marble onyx. Obsidian (volcanic glass) has many variations of color and is used in many applications. Jewelry and decorative art works made from these precious stones have high artistic value throughout the world.

*Mineral Waters:* Armenia has an abundant resource of mineral water distinguished by varieties of physical and chemical compositions, temperatures, and medicinal characteristics. Notably famous are the springs of Jermuk, Arzni, Dilijan, Bzhnj, Hankavan, and Sevan. For the most part the water comes from cold springs, 4 to 20°C, with Jermuk as an exception having a temperature of 67°C.

### **Transportation System**

Armenia relies mainly on aviation that connects the country with the rest of the world and land connections via Georgia and Iran. The nearest seaport is Poti in Georgia, through which Armenia gets access to the countries of the Black Sea region.

Armenia has a road network, serving all areas of Armenia's economy with a road density of 3360 kilometers per 1,000 square kilometers. The road network consists of 7,700 kilometers of interstate roads; inter-republican roads (regional); and local roads.

More than 100 million USD has been invested in the reconstruction of the transport infrastructure of Armenia with the assistance of international organizations (World Bank, TRACECA, UN) and the Armenian Diaspora.

#### ***Air transport infrastructure and civil aviation***

Aviation is one of the government's priority areas for development. Civil aviation infrastructure consists of three international airports, at Zvartnots, Erebuni, and Gyumri, and nine local (non-military) airports.

### **Industries**

Armenia's wide-ranging manufacturing industries produce metal-cutting machine tools, forging-pressing machines, electric motors, tires, knitwear, hosiery, shoes, silk fabric, chemicals, trucks, watches, industrial tools, mainframe computers and microelectronics (previously sold to the Soviet Defense industry). Armenia established itself as the key developer and producer of a third

of the high-tech computer and other electronics for the Soviet defense and space systems, with the best-equipped enterprises with highly qualified personnel. These skilled specialists and infrastructure present good investment opportunities today.

Armenia was a leading producer and exporter of high precision machine tools, power transformers, mobile power stations, alternators, hydraulic pumps, compressors, forklift trucks, forge-and-press equipment and instruments, all of which were exported to over 30 countries. It still offers competitive metal cutting and grinding machines for export and has retained its ability and capacity to make high precision machine tools, including stone cutting and processing machine tools, components, and spare parts. Light industry focuses on textiles, clothing, and carpets and is well developed and exports to the US and Western Europe.

### **Machine Building**

Important divisions of the sub-sector are the electro technical, machine tool, and automotive industries. Currently the enterprises produce electrotechnical equipment including cables and wires, power transformers and mobile stations, generators, alternators, a/c electric motors, electrical welding devices, elevators, lamps and various illuminators, and equipment for controlling and distributing electricity. Close integration of the metallurgical, energy, and electrotechnical divisions allows for a facilitating environment in the production and consumption of electrotechnical equipment.

The Machine Tool division consists of 15 enterprises producing metal cutting machines including lathes, drilling, milling, rotary table, and grinding machines. Progress has been made in the production of high precision and program managed machine tools. This division also produces various types of stone cutting and processing machines, special types of electroerosive, electrochemical and vibration processing machine tools, components, and spare parts. Due to negative industrial investments in the CIS countries, the machine tool division is currently experiencing demand reductions.

### **Instrument Making and Radio Electronics**

The Instrument Making division primarily produces equipment connected with automation facilities, digital instruments and spare parts, components for laser systems, electric measuring instruments, and devices to automate, control, and regulate technological operations. Other products include clocks and computer control systems, telecommunication equipment, radio equipment, domestic appliances, spare parts, and components.

Researchers have made improvements in the technology of unique optical space telescopes and equilibrium systems; laser and optical devices and components; digit analogue transformers and other related equipment; apparatus for measurement, diagnosis, and controlling of semiconducting components; integral schemes and various complex electronic components for defense and space technologies; and temperature measuring instruments for power engineering, ship, and machine building.

### **Chemical Production**

There is a well-developed chemical sub-sector in Armenia with several large chemical enterprises, namely Nairit, chloroprene rubber plant, Prometey-Khimprom Chemical complex, Doghagorts Tire plant. The interconnection of the plants results in large amount of output being utilized within the sub-sector. The companies produce synthetic chloroprene rubber and latex, melamine, chemical fibers and threads, calcium carbide, synthetic crystals and corundums, caustic soda, paints and lacquers, and more than 800 types of chemical organic reagents. Also in operation are pharmaceutical and vitamin companies. The major share of chemical products adheres to the international standards of quality allowing for competitiveness in the market.

### **Mining and Metallurgy**

Armenia possesses important reserves of copper, molybdenum, lead, zinc, iron and gold. It is also rich in construction stones (tuff, marble, granite, basalt, lime-stone, etc.), semi precious stones (obsidian, agate, jasper, etc.) and other materials such as bentonite, perlite, zeolit and diatomite.

A major part of mining production is exported. These products ranked third in total Armenian exports (11%) in 2000 and 2001.

Refineries for major copper and molybdenum operate near the mining towns of Kapan, Kadjaran, and Agarak. A metallurgical plant in Alaverdi producing pure copper, blue vitriol sulfur pyrite, as well as sulfuric acid, brass, and bronze powder was forced to close several of its sections when operations caused a major environmental crisis. The Ararat gold refinery processes gold ore of domestic deposits. Imported raw materials are used in the production of aluminum foil, and special metallic powders are produced from the iron scrap.

### **Construction Materials**

Armenia is rich in natural stone, clay, and limestone materials. There are 330 mines throughout the country with total estimated reserves of 3 billion cubic meters of volcanic tufa, basalt, andesite, sienite, colored marble, and Perlite. There are five large construction firms that have survived since before independence as well as numerous new, smaller enterprises. The government and the international community provide funds for new houses in the earthquake zone and for some projects in Yerevan as well as for road construction. Materials such as wall and floor tiles, insulation and other surface applications, as well as building components like heat; ventilation and air conditioning are indicating strong business prospects.

### **Precious Metals and Stones Processing**

Jewelry and diamond processing are considered a very attractive field for investment in Armenia based on the existence of skillful diamond cutters with competitive wage rates, modern equipment and tax privileges (no taxes on the import of raw materials and on the export of finished products) in Armenia. Jewelry is produced for domestic use and exports by both state owned and private enterprises using diamonds, gold, silver, and semiprecious natural stones.

In 2001, Armenia's leading mineral exports consisted of precious and semi-precious stones. Large proportions of these exports are polished diamonds, imported into Armenia in their rough state for finishing, thus taking advantage of Armenia's skilled jewelers with competitive labor costs.

Today, 27 companies with 5000 employees (2500 in diamond processing) are operating in this sector, excluding individual jewelers. The largest companies are Yerevan Jewelry Plant, Sapphire Plant, Lori Company, Shoghakn Plant and Diamond Company of Armenia.

Diamond processing is a predominant part of this sector's activities. Nevertheless, jewelry, including gold accessories, golden wristwatches, and jewelry articles and processing of semi-precious stones are also important and have a long tradition in Armenia.

### **Light Industry Consumer Goods**

Armenia's light industry is a traditional branch of its economy. Production is diversified throughout the country with major plants in Yerevan, Gyumri, and Vanadzor. The products are mainly cotton, woolen and silk garments, textiles, knitwear, hosiery, shoes, and carpets. Today, Armenia offers great opportunities to investors in light industry (carpet and footwear production and textile and clothing industry) due to cost effective labor, long-established traditions and free access to the CIS market. The absence of tariffs and other related regulations is another strong argument in favor of investing in this sector of Armenia's economy.

One of the fast-developing sectors of light industry is carpet production. Currently, carpets are exported to the US and Western European markets. The leading carpet makers are Haygorg (hand-made carpets), Idjevan Carpet (machine-made), and the affiliate of US-based Tufenkian Carpets.

Footwear production has traditionally been well developed in Armenia satisfying the needs of the domestic market and also exporting large volumes. Currently, Armenian companies are cooperating with European partners to enter Western markets. Nevertheless, the main market still remains the CIS.

Presently, the Armenian textile industry consists of three major sectors: clothing (15%), knitting (20%) and textile processing (65%).

### **Agriculture and Food Processing**

The agricultural sector is the country's largest employer and accounts for over 25% of GDP. Armenia produces grain crops, vegetables, and high quality fruits including grapes, figs, pomegranates, apricots, peaches, potatoes as well as cash crops like tobacco, grains, essential oils (such as geranium), rose, peppermint and herbal teas. Grapes traditionally brought income from wine exports, and fruits were either canned or exported fresh.

The development of the agricultural sector, hampered by fragmentation, inadequate distribution, and inefficient transport infrastructure, began with the rehabilitation of irrigation systems. These recorded strong growth and production of various food products like jams, preserves, dairy products, confectionery and all areas of food processing saw resurgence. The main products are canned fruits and vegetables, milk and dairy products, meat and meat products, mixed feed, flour, bread, alcohol, soft drinks, mineral water, and cigarettes. With modern processing and packaging technologies, Armenia's fruit and vegetable products will have the potential to enter international markets.

Armenia has about 500 natural springs, the most famous of which are Jermuk, Arzni, Dilijan, Bjni, Hankavan and Sevan. Less than 1/5 of the springs have been studied and recommended for use as drinking water; eight are licensed for production. Mineral water production has increased by almost 65%. The largest companies are Jermuk Group and Jermuk JSC, Bjni bottling plant, a joint venture with BGI a member of the Castel Group (France); Coca Cola Company is also an exporter of local water, bottled under the brand name Bonaqua.

Castel Company established a joint venture to produce "Kotayk" beer that is successfully consumed in the local market and exported.

The juice processing industry has seen the highest growth rate in Armenia. Several plants have been renovated in recent years installing new processing and packaging lines. The major private firms are: Sardarapat and Euroterm, which produce fruit concentrates and juices.

The availability of high quality grapes, ancient traditions of viticulture, well-developed infrastructure, and production capacities currently provide for the sub-sector an essential role in national economy. Armenian brandies are traditionally famous in international markets. Varieties of dry, sweet, and sparkling wines are consumed mainly in the markets of CIS. Presently the sub-sector consists of 35 wineries, 3 brandy distillers, and 1 sparkling wine plant, as well as approximately 170 grape purchasing and primary processing branches.

Tobacco is extensively cultivated in the northeast region of Armenia. Cigarettes are produced using both domestic and imported tobacco.

### **Information Technology Industry**

### **Overview of Armenian IT Sector**

Armenian Information Technologies (IT) industry is one of the most successful and fastest growing industries in Armenia. The sector is comprised of both indigenous and foreign companies generating around 50 million US dollars and employing from 4,000 to 5,000 people.

The major specializations include embedded systems and semiconductor design and testing, custom software development, accounting and financial applications, encryption, artificial intelligence, software development outsourcing, multimedia design, industrial automation, Internet applications, web design and development, Management Information Systems (MIS), and Systems Integration.

IT sector is well positioned to continue its development and growth in the following years based on combination of different factors and advantages: highly qualified workforce at competitive prices; entrepreneurial spirit of Armenian businessmen; Government support of the industry; and traditionally strong R&D capabilities enabling Armenian specialists not only to work on writing code but also to solve complex scientific and business problems.

### **Companies**

There is an equal mix of foreign and indigenous IT companies in Armenia. The total number of companies is over 100 with around one third of the companies established within the last five years. Almost all companies (both foreign and indigenous) are concentrated in Yerevan where a pool of qualified human resources exists and a proper infrastructure for conducting business is established.

Most of the local companies are either newly created private organizations or recently privatized research institutions or manufacturing enterprises while foreign companies are software development and research centers of foreign corporations.

Local companies are specializing in financial and accounting applications, management information systems (MIS), industrial process control system engineering, web development and e-commerce, security, network solutions, wireless applications, mathematical algorithms, airport management systems, and other areas. Companies are serving the local market while many of them are successful in exporting products and services.

Armenia recently had some successes in attracting FDI in the software industry. In the recent years a number of foreign companies established their presence in Yerevan. The following foreign companies could be mentioned: Lycos Europe, HPL, Credence Systems, Leda Holding, Epygi Labs Am LLC, Hi-Tech Gateway, Virage Logic, Boomerang Software and several Silicon Valley based companies.

### **Exports**

Around eighty percent of IT services / products is exported. The major markets for IT industry products lie outside of Armenia, particularly US, Europe, Russia, and other countries. There are also a number of companies working for the Middle East market.

Foreign companies export more than 95% of their sales and account for the major part of Armenia's IT exports. However, indigenous IT companies are also becoming increasingly export-oriented, looking for new opportunities to sell products or services abroad.

Employing less than half percent of total workforce, IT industry produces nearly ten percent of Armenia's exports and around three percent of Armenia's GDP. Foreign companies are accountable for the majority of these revenues but the indigenous sector has its own important share.

### **Domestic consumption**

Steady economic growth, competitive environment, demand for higher productivity, and need for real-time and up-to-date information create pressures on companies in various sectors to seek for

IT solutions addressing their business needs. Businesses and non-for-profit organizations start making increasingly larger investments into software and IT solutions. The most demanded products mainly provided by local companies are: enterprise resource planning (ERP) systems; financial, accounting, payroll, sales, logistics, warehouse, and analysis applications; banking applications; and e-commerce/web development services.

## **Banking, Finance, and Insurance**

### **Banking System**

Armenia has established a two-tier banking system consisting of the Central Bank of Armenia (CBA) and a second tier of commercial banks. The main legislation governing the Armenia banking sector is the Law on the Central Bank of Armenia and the Law on Banks and banking, both adopted in June 1996.

Over the years, the CBA has continuously tightened regulatory requirements and sound standards of financial discipline, developed with the assistance of international financial institutions. Recent efforts of the CBA include raising the minimum general and core capital-adequacy ratios to 12 and 8 percent respectively in April 1999; changing the risk weighting on some items; and reducing the maximum open foreign exchange exposure to 25% after April 2000. In addition, the minimum capital requirements for existing commercial banks have been increased to USD 5 million.

Furthermore, the level of both on-site and off-site supervision has increased, with all banks being required to adhere to International Accounting Standards since January 1998 when a new chart of accounts was adopted. The CBA is planning to further strengthen its prudential regulations to enhance the soundness of the banking sector. New banking regulations and concepts under consideration include: improving the capital adequacy requirement through a clear definition of capital; and developing classification and appraisal guidelines to determine the overall quality of banks' investment portfolios.

As at December 2005, Armenia had 20 banks with total of 233 branches in Armenia, and 9 credit organizations (creditor union, leasing and versatile entities). Among these, nine had foreign capital of more than 50 percent, including HSBC and the recently acquired Armsavingsbank. Thus, the banking system is fairly balanced in terms of ownership.

### **Capacity of the banking sector**

Although it has expanded greatly in the past five years the banking system is still small and experiences difficulties in attracting deposits. The banking system had a total of about \$460 million in assets (end 2003) according to IFS, equivalent to a low penetration ratio of about 16.5 percent of GDP (2003 figures). Alternative figures from CBA put these at \$498 million in assets, or 17.3 percent of GDP. Of these assets, about \$236 million were in the form of loans (including to government), or 51 percent of total. Netting out government (bank purchases of T-bills), loans to the real sector were \$183 million, or about 40 percent of total assets. However, figures through third quarter of 2004 show significant increases in loans and total assets, and projected annualized figures for 2004 should put banking system assets-to-GDP at more than 20 percent.

These figures translate into the following averages per bank<sup>9</sup> in 2003-04:

- Assets: \$25 million in 2003, projected to rise to about \$39 million by year-end 2004.
- Loans (to enterprises, households and NBFIs): \$9 million in 2003, rising to about \$15 million by year-end 2004.

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<sup>9</sup> Figures include 20 banks for 2003 and 2004.

- Loans (to government, enterprises, households and NBFIs): \$12 million in 2003, rising to about \$19 million by year-end 2004.
- Deposits: \$12 million, rising to a projected \$25 million by end 2004.
- Gross Capital: \$5 million, rising to nearly \$7 million at end 2004.
- Net Capital: \$3.5 million, rising to about \$5 by end 2004.

### **Capital markets**

The securities market is governed by a new law on "Regulation of the Securities Market" adopted in July 2000. This law created the Securities Commission of Armenia (ASC) as an independent regulator. The ASC is making efforts to finalize the overall regulatory framework and to develop and strengthen the supporting institutions needed for the growth of capital markets. The Ministry of Finance and Economy and the Securities Market Inspectorate (SMI) have been developing the legal and regulatory infrastructure to support and promote a transparent market, including drafting of the new securities law. A priority in this area was the creation of the Securities Commission, a sound share registry and clearance and settlement systems. The securities markets in Armenia are very small, essentially comprised of a limited government securities market and virtually nothing in equities. The Armenia Stock Exchange does not serve as a source of investment capital for Armenian companies, and most trading is carried out off-market under less than transparent conditions. Only \$700,000 in market turnover was reported in 2003. Total volume of government securities issued was \$76.5 million in 2003. There is very little secondary trading reported apart from T-bill activity.

### **Insurance**

The insurance sector is composed of 19 active companies and three others licensed but not active. Premium revenues were \$1.2 billion-equivalent in 2003, but 97 percent of this was reinsured. As such, net premiums in Armenia approximated only \$35.4 million, or less than \$2 million per active company. After-tax profits were only about \$279,000, or less than \$15,000 per active firm. Insurance density and penetration measures are very low, with per capita insurance at about \$2, which is below most transition economies. Meanwhile, as a share of GDP, net premiums were little more than 1 percent. Life insurance is underdeveloped, with only one Armenian company offering such products. As such, life insurance only accounts for a small fraction of what are already low levels of insurance revenues.

The majority of insurance sold in Armenia consists of: auto, property (primarily commercial), construction risks, aviation (at least until the domestic air carrier filed for bankruptcy and Siberian Air, the replacement carrier, purchased its insurance through its parent company), marine cargo and travel medical. There is virtually no life insurance sold in Armenia. There is little industry compilation of and access to statistical data on mortality tables, necessary for pricing of life insurance.

There are many types of insurance not currently available in Armenia: professional indemnity, product liability, pollution or environmental liability, directors and officers insurance (D&O). Kidnap and ransom, extended warranties, contingency business and legal expenses coverage are not written in Armenia today.

### **Current International Agreements and memberships**

**Bilateral Trade Agreement with US:** Provides for Most Favored Nation (MFN) status for products from both countries, improved market access, and nondiscriminatory treatment for U.S. goods and services in Armenia and Armenian products in the U.S. The agreement also provides strong intellectual property rights protection in reaffirming commitments to international agreements. In effect since April 1992.

**Bilateral Investment Treaty:** The U.S. and Armenia signed a BIT, which creates a legal framework to stimulate investment in Armenia, in October 1992. The BIT ensures that companies with foreign investment in each country will receive treatment that is no less favorable than that provided wholly domestic companies.

**U.S.-Armenia Task Force:** The Task Force, set up under an agreement signed in September 1999 by Vice President Gore and the late Armenian Premier Vazgen Sargsian, is designed to enable the Governments of the United States and Armenia to coordinate better their efforts to promote economic cooperation and assist Armenia in its transition to a market economy.

**World Trade Organization (WTO):** Member since 2002.

**International Standards Organization:** Member since 1995.

**Berne Convention:** The Armenian parliament ratified the Berne Convention for the Protection of Literary and Artistic Works on May 3, 2000. This fulfils one of Armenia's commitments under its 1992 bilateral trade agreement with the United States.

**World Bank:** Armenia joined the World Bank in 1992 and the International Development Association (IDA) in 1993. Bank lending to Armenia is designed to help the Government accelerate the transition to a market economy and to alleviate poverty. In the area of structural reforms, the Bank has placed emphasis on the promotion of private sector development, on more effective social protection, and improved services in health and education. The Bank is working with the Government to develop Armenia's exports and to rehabilitate the country's infrastructure, as well as to reduce poverty through cost-effective delivery of basic social services, especially for the poor.

## CHAPTER 3. BUSINESS ENVIRONMENT AND LEGISLATION

### Business Entities

#### **General Information**

In order to start doing business in the Republic of Armenia, it is required to establish a business entity (legal entity) or to get registered as a private entrepreneur (sole proprietor).

An entity's or an individual's independent activity at its own risk with the purpose of receiving profit from using its property, selling goods, providing services and doing other type of work is considered a commercial (business) activity.

An organization, which owns separate property and bears responsibility for its obligations with its property, which acquires and exercises property and non-property rights on its behalf, as well as bears responsibility and acts as plaintiff or defendant in court is considered a legal entity.

Legal entities may be either (commercial) organizations with profit-making as the primary goal of their activities, or (non-profit) organizations which do not pursue profit-making goals and do not distribute the gained profit among its participants.

According to the Paragraph 2 of Article 51 of RA Civil Code, legal entities that are commercial organizations may be created in the form of business partnerships and companies. According to the Paragraph 2 of Article 72 of the same Code, business partnerships may be created in the form of a general partnership or a limited partnership. According to Paragraph 3 of the same Article, business companies may be created in the form of a company with limited or supplementary liability or a joint-stock company.

#### **Limited Liability Companies**

The Limited Liability Company (hereinafter "LLC") is a commercial organization in the form of legal entity, established by one or more individuals. The charter capital of the LLC is divided into shares as stipulated by the Company Charter. The company is considered registered from the moment of its state registration according to the procedures set out in the RA law "On State Registration of Legal Entities".

The investments made by the company founders (participants), as well as the property produced and purchased during the company's activities shall belong to the company with the right of ownership.

Companies (LLCs) may engage in any activities not prohibited by law. Certain types of activities, specified by law, may be conducted only upon getting of a special permit (license).

A Company shall bear responsibility for its obligations with all property belonging to it. A Company shall not be liable for the obligations of its shareholders; similarly the shareholders shall not be liable for the obligations of a Company.

The founding document of the company is the charter approved by its founders. The decision on approval of the charter shall be adopted unanimously by the company founders.

Company stakeholders shall have a right to alienate their shares (part thereof) in the Company's charter capital or otherwise transfer to one or more participant of this Company. Purchase of stake is subject to pre-emptive rights in favor of other participants of Company at the price offered to a third person.

The Company's profit may be distributed on an annual basis by the decision of General Meeting. The profit shall be distributed among the participants in proportion to their stakes in the Company's charter capital.

The charter capital of an LLC is composed of the investments of its stakeholders. The charter capital shall not be less than AMD 50000 (fifty thousand). (Paragraph 1.2 of Article 28 of RA Law “On Limited Liability Companies”)

The decision on approval of non-cash contributions to the charter capital of the company shall be taken unanimously by the General Meeting. If the amount of non-cash contributions exceed AMD 500000 (five hundred thousand), such contribution shall be evaluated and approved by an independent auditor (Paragraph 2 of article 29 of RA Law “On Limited Liability Companies”).

Deleted:

The governing bodies of LLC are its General Meeting, the Board, and the Executive Body. The General Meeting is the highest instance in a Company. The existence of a Board in LLCs is not a must. The Executive of a Company handles the ongoing management of Company’s business. An Oversight Commission may also be created in a Company where the number of participants does exceed twenty.

The LLC may be re-organized into an open or a closed joint-stock company.

Liquidation of LLC constitutes termination of its activities without the right to succession of its rights and liabilities.

### **Joint Stock Companies**

The Joint Stock Company (JSC) is a business/commercial organization the charter capital of which is divided into a specified number of shares of stock amounting to a shareholders’ risk in the business. At the time of the Company’s incorporation, all of the shares shall be distributed among the Founders.

A new company shall be established at the Meeting of Incorporation, which is assembled within three months after the allocation of the shares and the payment of the shares’ value by the shareholders.

A JSC may engage in any types of activities not prohibited by law. Certain activities, as specified by the law, may be conducted by a company only on the basis of a license.

The Company shall bear responsibility for its obligations with all property belonging to it. The Company shall not be liable for the obligations of its shareholders; similarly, the shareholders shall not be liable for the obligations of the Company.

The JSCs may be either open (publicly held) or closed (closely held), and such form of the Company shall be stipulated by the Charter of the Company and be reflected in its company name.

The Company whose shareholders have the right to alienate the shares belonging to them without the consent of the other shareholders of the Company is an open company. Such a company shall have the right to conduct an open and closed subscription for the shares issued and shall have a right to unrestricted offer of these shares.

The Company whose shares are distributed only among its founders or other previously determined group of persons shall be deemed to be a closed company. The shareholders of a closed company shall have a preferential right to acquire the shares of the Company. Such a Company shall not have the right to conduct an open subscription for shares to be issued by it or

otherwise offer them for acquisition to an unlimited group of persons. A closed company shall have no more than 49 (forty nine) shareholders.

The charter capital of a Company shall amount to the nominal value of the shares of the Company acquired by its stockholders, and shall not be less than AMD 1000000 (one million) for open joint stock companies, and AMD 100000 (hundred thousand) for closed joint stock companies.

The payment for publicly offered shares shall be advanced only by cash. Any Company (itself or through a specialized agent) shall maintain a shareholders' registry. The Company's common stock and preferred shares of one type shall denote the same rights for their holders.

The governing bodies of a JS Company are:

- General Meeting
- Board
- Executive Body
- Oversight Commission.

Existence of the Board is required for Companies with more than 50 (fifty) shareholders. The Executive Body conducts the ongoing management of the Company's activities. The Oversight Commission audits the Company's financial and other activities.

A company has the right to pay dividends for publicly offered shares quarterly, annually or on semi-annual basis.

There are procedures in the relevant Law stipulating the requirements for publicizing information about open companies. The RA Law on Regulation of the Securities Market provides for the specifics of the issue of common stock of a Company. The Securities Commission of the Republic of Armenia is the authorized body of the Republic of Armenia on the regulation of the securities market.

Liquidation of a Company shall entail its termination without legal succession.

#### **Companies with Supplementary Liability (non-limited liability)**

The Company with supplementary liability differs from the Limited Liability Company (LLC) by the fact that its stockholders bear personal additional liability for the Company's debts.

Company's stakeholders shall bear additional liability if the Company's own resources are less than the outstanding liabilities of the Company. The additional liability is conferred upon a participant in the Company proportionate to one's investment in the Company's charter capital.

#### **Private Entrepreneur (Sole Proprietor)**

An individual carrying out business activities on his/her own and at his/her risk and registered as such is considered a private entrepreneur. RA and foreign citizens, as well as persons without citizenship who are eligible to conduct business activities in Armenia may be private entrepreneurs. The private entrepreneur shall get registered at the respective regional divisions of the State Registry of Enterprises by submitting the required documents.

Private entrepreneur shall bear full responsibility for his/her liabilities with all the property belonging to him/he.

#### **Partnerships**

Business partnerships may be created in one of the following two forms: full business (general) partnerships and limited partnerships.

General partnership is a business form, by which its participants (general partners) are engaged in business activities on behalf of the partnership but bear responsibility for their obligations with their own property. The Charter of such a partnership shall indicate whether the management of the partnership shall be implemented jointly or it shall be assigned to a particular partner.

Each participant in a general partnership shall have one vote regardless of his/her share in the joint capital unless otherwise stipulated by the Charter of the partnership. Participant of the general partnership shall have the right, with the consent of the other participants, to transfer their stakes in the joint capital, or a part thereof, to another person.

A limited liability partnership (Limited Partnership) is a partnership where along with the participants engaged in business activity on behalf of the partnership and liable for obligations of the partnership with their property (general partners) there are one or more participant-investors (limited partners), who bear the risk of the losses connected with the partnership's activities within the amount of their contributions and who do not participate in the performance of the partnership's business activity.

Management in a limited partnership shall be conducted by general partners but their actions may be supervised and are subject to appeal by the limited partners.

### **Branch**

The branch is a separate subdivision of a legal entity located outside the place of location of the legal person and conducting all the functions of the legal entity or part of them, including representation. Branches are not considered as legal entities and shall operate according to procedures set up by bylaws approved by the legal entity, which has established the branch.

The Head of a branch is appointed by the legal entity and acts on the basis of power of attorney issued by the authorized body of the legal entity.

### **Representative Office**

The Representative office is a separate subdivision of a legal entity located outside the place where the legal person is located, which represents and protects the interests of the legal entity.

Representative offices are not legal entities and shall operate according to the bylaws approved by the company, which has established that office. The Head of the Representative office is appointed by the legal entity and acts on the basis of power of attorney issued by the authorized body of the legal entity.

## **Business Registration**

### **General Information**

The first stage of a company's registration is the registration of the company name. In order to register the company name, the founder of the company or another authorized person submits an application to the regional division of the RA State Register of Legal Entities.

The application form is provided by the regional office of the State Register and includes the following information: the preferred company name (names) submitted for registration, its abbreviation or short form (if any), address of the applicant, explanation of the trade name submitted for registration in case if it is not comprehensible in Armenian.

Attached to the application form shall be the following documents: 1) the Power of Attorney if the application is submitted by a person authorized by the applicant, 2) original receipt confirming payment of the applicable state duty, 3) relevant permission or approval, if the company name includes the words "Armenian", "Armenia" and their translations, names of the Republic of

Armenia administrative territories, full or short name of a famous person used in the company title.

Moreover, a state duty of AMD 600000 is charged each year for using the words «Armenian», «Armenia» and their translations.

Period of application screening is two days. In order to simplify the registration procedures, the application form allows indicating five options of preferred company names.

The decision on company name registration is valid for six months: during this period of time the legal entity should be registered otherwise the decision on registration of the company name would be considered invalid.

### **Company's State Registration**

For the company's state registration, the following documents should be submitted:

1. Application filed by a person authorized by the founders of the legal entity,
2. Minutes of the Meeting of Incorporation carrying the signatures of the Chairman and the Secretary of the Meeting (except for the cases when the legal entity is set up by one individual),
3. Information about the director of a company (copy of passport)
4. At least two copies of the Company's Charter (4-6 copies are preferred),
5. An invoice confirming payment of the applicable state duty (original copy).

In case if there is a legal entity among the founders, a decision of the authorized body of this legal entity should be provided.

If one of the Company's founders is a foreign legal entity, the following documents should also be submitted: an excerpt from the Enterprises Register of the given country, or other valid documents verifying the Company's legal status, as well as its founding documents which shall be verified and translated into Armenian.

The period for checking the documents and registration of the legal entity is set at five days. State duty equivalent to twelve basic duties, that is AMD 12000 (twelve thousand) is charged for registration of a legal entity or its separate division in the State Register.

### **Registration of Private Entrepreneur**

In order to register as a private entrepreneur (sole proprietor) an individual should submit the following documents to the regional division of the RA State Register by place of residence:

1. Application for registration: name, passport data, current address and state residence permit, period of business (forms of application for registration may be obtained from regional divisions of the RA State Register),
2. Copy of passport,
3. Photo (3x4 size),
4. An invoice confirming payment of the applicable state duty (original copy).

State duty for registration as private entrepreneur is AMD 6000 (six thousand).

### **Registration in tax service and statistical bodies**

Within one month upon state registration of a legal entity, it shall get registered with the relevant regional offices of the tax and statistical agencies. For registration in these bodies, one copy of the registered charter and a copy of the state registration certificate should be submitted.

If the legal entity is not registered in relevant regional divisions of tax service and statistical bodies within one month from its state registration as a legal entity, director of the legal entity shall be brought to administrative responsibility and be fined in the amount of AMD 10,000-20,000.

Upon registration in the state tax office and upon receiving a taxpayer's number, a relevant permission for order of the Company's seal may be obtained. A state duty of AMD 6000 (six thousand) is charged for getting the permission to order the seal (clause (b) of Paragraph 28 of Article 20 of RA Law on State Duties). Another fee for getting the seal designed and produced will be charged which varies depending on the terms and quality of the work.

### **Foreign Investments**

#### **General Provisions**

The legislation of Republic of Armenia on foreign investments has the following objectives:

- To promote foreign investments,
- To provide equal conditions to both the local and foreign companies,
- To recognize and protect ownership rights of foreign citizens, as well as residents within the territory of the Republic of Armenia,
- To provide certain tax holidays to certain companies with foreign investments
- To exclude any limitations on transfer of funds.

#### **Limitations**

The legislation of the Republic of Armenia sets certain limitations on ownership rights of and conducting business activities by foreign citizens. In particular:

1. Foreign citizens (individuals) may not own land in the Republic of Armenia,
2. Certain business activities require obtaining licenses, which limitation applies to residents of the Republic of Armenia too,
3. Only resident companies in the Republic of Armenia may conduct business activities in the banking, financial and insurance fields.

There are no limitations and discriminations related to the size and types of ownership rights of foreign investors (with the exception of right of ownership of land), the number of foreign employees, and financial injections to be made.

Foreign companies registered in the Republic of Armenia are considered resident companies. Foreign companies may establish branches and representative offices which are mostly treated similarly as resident companies.

#### **Tariffs**

The tariffs for water, energy resources, electrical energy, heating, communication in the Republic of Armenia are set by an individual commission based on the requests of companies providing relevant services.

Except for these services no other product or service tariffs are subject to regulation.

#### **Land utilization**

Foreign citizens do not have the right to own land, but the organizations established by them as legal entities of the Republic of Armenia do.

Foreign citizens may enter into long-term leasing agreements, and no time limitations do apply on this.

#### **Investment promotion**

Effective since 1995, the RA Law on Foreign Investments provides multiple guarantees to foreign investors. Currently there are no comprehensive investment promotion programs, however certain incentives for investors and exporters do exist, such as: absence of export tariff and VAT refund for exported products and services, absence of tariff on property imported with the purpose of investment in the organization's charter capital and of product output, absence of restrictions on transfer of funds, etc.

#### **Information**

More information on specific issues regarding regulation of foreign investments can be found in the chapter on Taxes in this Guide.

## **Business Inspections**

Issues related to carrying out business inspections at business entities operating in the Republic of Armenia (RA) are regulated by RA Law “On Organizing and Carrying out Inspections”.

Business inspection is a legally endorsed and implemented procedure, which verifies credibility of reports and declarations provided by business entities according to the respectful RA laws, accuracy of calculation of taxes and other mandatory payments, input data and other documents, as well as compliance of actual activities of the business entity with requirements of relevant RA laws and other legal acts.

Inspections can be 1) thematic - focused at clarifying specific issues related to the activities of a business entity, or 2) complex - focused at clarifying the actual state of overall financial activities of a business entity.

Thematic inspections are as follows:

1. Inspections directed to clarifying the accuracy of calculation and payment of taxes, customs fees, compulsory social security, use of natural resources, environmental protection and other compulsory payments defined by law;
2. Inspections of accuracy of interrelations with the state budget;
3. Inspections of activities carried out on basis of license for certain types of activities;
4. Inspection of the level of compliance with defined economic norms,
5. Administration of the securities register and transactions carried out thereby;
6. Inspection of currency transactions;
7. Inspections of the level of compliance with sanitary-hygienic and fire-prevention rules and other similar inspections.

The exclusive right of demanding complex inspection of financial activities belongs to the shareholders and stockholders.

In addition to the inspections the law also envisages investigations for clarification of certain issues.

Investigations are conducted with the purpose of making clarifications, exemptions to this rule are investigations of implementation of 1) offset and refund of tax overpayments, as well as 2) control purchases. The investigations cannot result in additional tax liabilities.

During inspections rights and liabilities of inspecting bodies and business entities are defined by Articles 7, 8, 9 and 10 of RA Law “On Organizing and Carrying out Inspections”.

### **Inspecting Bodies**

The following bodies are authorized to carry out inspections in the territory of the Republic of Armenia:

- Ministry of Justice of the Republic of Armenia,
- Ministry of Transport and Communication of the Republic of Armenia,
- Ministry of Agriculture of the Republic of Armenia,
- Ministry of Environmental Protection of Republic of Armenia

- Ministry of Energy of the Republic of Armenia,
- Ministry of Urban Development of Republic of Armenia,
- State Tax Service,
- Securities Market Inspectorate of the Republic of Armenia,
- Department of Standardization, Measurement and Certification under the Government of the Republic of Armenia,
- Department of State Nuclear Control under the Government of the Republic of Armenia,
- Department of Work Safety in Industry and Mountain Control under the Government of the Republic of Armenia,
- State bodies of fire control of the Republic of Armenia,
- Service of State Hygienic and Anti-epidemic Control of the Republic of Armenia,
- State Social Security Fund of the Republic of Armenia,
- Ministry of Finance and Economy of the Republic of Armenia,
- State Inspectorate of Language of the Republic of Armenia,
- National Service of Statistics of the Republic of Armenia,
- State Committee of Water Resources,
- National Security Service,
- Ministry of Trade and Economic Development of the Republic of Armenia,
- Ministry of Health,
- Ministry of Labor and Social Issues,
- State licensing bodies.

List of bodies authorized to carry out inspections in the Republic of Armenia is defined in Article 2 of RA Law “On Organizing and Carrying out Inspections”.

### **Inspection Procedures**

Before commencing the inspection the head of the respective state body shall issue an order or instruction. The order or instruction should include: 1) name of the body carrying out inspection, 2) full name of the business entity undergoing inspection, 3) the position, first and last names of the official (officials) performing the inspection, 4) purposes and issues of inspection, 5) time period covered by the inspection and its duration, 6) legal grounds for inspection.

Generally, the order or the instruction shall be submitted to the head of the business entity at least 3 (three) business days prior to commencing the inspection. However, there are certain exceptions to this rule, the scope of which is limited and is clearly defined in Clause 3 of Article 3 of RA Law “On Organizing and Carrying out Inspections”.

Head of the business entity shall sign one copy of the submitted document, certifying that he/she is notified about the inspection.

Term of the inspection may be no more than 15 calendar days continuously per annum. Inspection by the same state body in the same business entity shall be carried out no more than once per annum, except for re-inspection cases.

Based on results of the inspection a statement shall be drawn up in two copies, or in three copies if the business entity has a public share. In case if no violations and defects are revealed a report shall be prepared. One copy of the statement or report shall be submitted to the business entity.

The report shall contain the following information: place and date of reporting, names of the business entity and relevant state body carrying out the inspection and, inspecting officials, purpose, term and results of the inspection, the number of copies, and the consecutive number. In case of a statement, comments (special feedback) of representatives of the business entity should also be included.

The inspection statement shall contain description of recorded violations, infringed legal norms, exact time of violation, a reference to relevant documents, necessary actions for elimination (correction) of the violations, corresponding legal grounds for application of liability.

The statement shall be submitted to the head of the business entity within three days. The officials carrying out the inspection and the head of the business entity shall sign the statement. In case of disputes a corresponding note thereof shall be made in the statement. Time period for the business entity to sign the statement or to submit a disagreement shall not exceed three days.

### **Re-inspections**

Re-inspection is the second (repeat) inspection within one year carried out in the same business entity by the body performing inspection, except for cases defined by Clause 3 of Article 3 of RA Law “On Organizing and Carrying out Inspections”, where re-inspections are carried out more than once.

Re-inspections can be carried out in case of existence of any one of the following grounds:

- a) In case of liquidation of the business entity;
- b) By request of the head of the business entity;
- c) By written recommendation of the Prime Minister of the Republic of Armenia;
- d) If a court sentence entered into legal force confirms the criminal actions of the previous inspector performed while carrying out the inspection;
- e) It is implied by preparations for privatization of the business entity,
- f) It is a counter-inspection for the purpose of verifying legality of a specific operation,
- g) Appeals of actions by inspecting officials are under consideration,
- h) In the cases defined by Clause 3 of Article 3 of RA Law “On Organizing and Carrying out Inspections”.

Re-inspections of financial activities may be carried out only by written instruction of RA Prime-Minister.

### **Appeal**

Within the period pursuant to the law, actions of persons carrying out inspection may be contested in the state body, which is the direct supervising body of the inspecting persons, or in court. Head of the business entity may terminate inspection until the answer to the complaint is received, except for cases specified in Clause 3 of Article 3 RA Law “On Organizing and Carrying out Inspections”.

Complaints are considered in order of precedence and decisions thereon are made not later than within 30 days following the day of filing the complaint. Should there be no decision on the

complaint within the defined time period the arguments brought in the complaint are considered accepted.

In case of a disagreement with the decision made with regards to the complaint the head of business entity has the right to appeal to the court.

Losses incurred in the business entity resulting from unlawful actions of the inspecting bodies, including lost profits, are subject to compensation according to the procedure defined by legislation of the Republic of Armenia from the resources of the state budget.

## **CHAPTER 4. COMMERCIAL ENVIRONMENT AND REGULATIONS**

### **Accounting and Financial Requirements**

Accounting in Armenia is based on Armenian Accounting Standards (AAS) completely harmonized with International Accounting Standards (IAS), as well as governed by the Law of the Republic of Armenia on Accounting.

#### **Important Aspects of Armenian Accounting and Its Regulation**

Accounting in Armenia is regulated by state authorities, rather than by independent professional organizations.

The regulatory framework for Armenian accounting has three levels. The first level includes the Law of the Republic of Armenia on Accounting, the Civil Code, the RA Law “On Joint-Stock Companies,” etc. The second level of the regulatory framework consists of Armenian Accounting Standards, the Chart of Accounts and other accounting regulations. The Central Bank of Armenia is responsible for setting standards for banks and other credit institutions, while the Ministry of Finance performs this function for all other companies. The accounting policies of a given company are developed on the basis of the legislation and regulations from the first two levels. Each company keeps its accounting books and prepares its financial statements in accordance with its approved accounting policies.

#### **Accounting Principles and Assumptions**

Starting 1997, the Armenian Government launched a Program for the Reform of Armenian Accounting in Accordance with International Accounting Standards. In line with this program, new Armenian Accounting Standards (AAS) are being introduced. These standards regulate major aspects of accounting, as well as the presentation and disclosure of information (such as accounting policies, fixed assets, intangible assets, inventories, income and expenses, related parties, segment information, government grants, and others). The new AAS have introduced fundamental accounting assumptions and requirements, thus bringing Armenian practice closer to international practice, such as going concern, consistency of accounting policies, accrual basis, prudence, substance over form, cost-effectiveness and others.

#### **Form and Content of Statutory Financial Statements**

The only financial statements acceptable for filing purposes are statutory financial statements. The structure, presentation, procedures for preparation, and other aspects of statutory financial statements are stipulated in the Armenian Accounting Standard “Presentation of Financial Statements.” Statements should be prepared in Armenian Drams and in the Armenian language, and a company must submit its annual statutory financial statements to:

- The stockholders of a legal entity in accordance with its foundation documents;
- The statistics authorities in different format;
- The state tax authorities.

Basic annual statutory financial statements include: a balance sheet, a profit and loss statement, cash flow statement, statement on change in equity and notes to all statements. For qualified small businesses, a simplified set of rules for accounting is allowed. The reporting year of an Armenian company is generally the calendar year.

## Chart of Accounts

The main categories of the Chart of Accounts are shown in the Table below. The Chart of Accounts must be applied in the territory of Armenia by all commercial companies (except banks and state-financed companies) using a double-entry bookkeeping system.

### *Main Categories in the Chart of Accounts*

<b>Category</b>	<b>Account number</b>
Non-current assets	11-15 (Class 1)
Current assets	21-26 (Class 2)
Equity	31-35 (Class 3)
Non-Current liabilities	41-42 (Class 4)
Current liabilities	51-54 (Class 5)
Incomes	61-64 (Class 6)
Expenses	71-75 (Class 7)
Managerial accounts	81-82 (Class 8)
Off-balance sheet accounts	91-94 (Class 9)

## Some Important Aspects

### **Balance Sheet**

On the face of the balance sheet, all assets and liabilities should be classified into current and non-current depending on their maturity date. Assets and liabilities should be classified as current if their maturity date is within 12 months of the balance sheet date or within the operating cycle if the latter exceeds 12 months. All other assets and liabilities should be classified as non-current.

### **Receivables**

Provisions for trade debts that have not been settled on the due date and which were not secured by the appropriate guarantees (under Armenian legislation such debts are classified as doubtful) are created at the reporting year-end. In the balance sheet the receivables are shown net of the provision.

### **Inventories**

Inventories shall be initially recognized at cost. The cost of inventories (by types) can be assigned by using different cost formulas in the event they are transferred for production or otherwise are disposed of. The following cost formulas are allowed: specific identification; average cost; first-in, first-out (FIFO); or last-in, first-out (LIFO). Finished goods are valued at actual cost, standard cost or direct costs. Work in progress can be valued at standard cost, direct costs, cost of raw materials and semi-finished goods, or actual cost (for unique production only).

For reporting purposes, inventories should be measured at the lower of cost and net realizable value if 1) the price of inventory decreased during the reporting year, or 2) if inventory became obsolete or partially damaged.

Provisions for impairment of inventories are created at the reporting year-end. In the balance sheet, inventories are shown net of the provision.

### **Property, Plant and Equipment**

Property, plant and equipment shall be recognized at historical cost. To offset to a certain extent the effect of inflation on the fixed-asset base, a company has the right to perform the revaluation of the historical value of fixed assets and accumulated depreciation once per year (at the beginning of the year) or less often, but still on a regular basis. Two methods of the revaluation are allowed, i.e. indexation and market valuation.

The depreciation of fixed-asset items may be carried out by one of the following methods: the straight-line; diminishing balance; sum-of-the-years-digit; or sum-of-the-units. The useful life is determined by a company according to its accounting policy.

#### **Intangible Assets**

The composition of intangible assets is restricted by the relevant accounting standard. Amortization of an intangible asset shall be charged over its useful life by the:

- straight-line method;
- sum-of-the-units method;
- diminishing balance.

An asset without a specified useful life may be amortized over 20 years, but not longer than the life of a company. Start-up expenses (if treated as a contribution of a company to the charter capital) and positive goodwill are included in the intangible assets and amortized on a straight-line basis over 20 years. Amortization of negative goodwill is accounted as operational income and form financial results of a company also over 20 years evenly.

#### **Legal Reserve**

The legal reserve is formed to be used for a limited number of purposes (e.g. to cover the loss of the reporting year). The year-end balance of the legal reserve is carried forward into the next reporting period.

#### **Finance Lease**

Armenian legislation stipulates that risks related to assets held under finance lease should be incurred by the lessor, unless the lease contract provides otherwise.

For accounting purposes, the finance lease contract must define whether the lessor accounts for and depreciates an asset held under finance lease and the lessee accounts for such an asset off-balance sheet, or vice versa.

#### **Business Expenses**

All regular business expenses for accounting purposes are taken in full into the calculation of the profit (loss) for the reporting year. Such expenses include, for example, business travel expenses, advertising expenses, payments made under insurance contracts and others. For some of these expenses in order to calculate profit for tax purposes, adjustments are needed in accordance with the RA Government Decree on Profit Calculation for Tax Reduction.

#### **Borrowing Costs**

Interest on loans is generally either recognized as an expense and taken in full to the profit and loss account or capitalized. Armenian accounting requires the capitalization of borrowing costs during the construction of a non-current asset. Interest costs relating to intangibles and securities can also be capitalized up to the moment an asset is recognized in the books.

#### **Cash Flow Statement**

The cash flow statement gives a breakdown by types of activities, i.e. operating, financing and investment.

#### **Explanatory Notes**

The explanatory notes to the annual statutory financial statements must contain essential information about the company and the financial status thereof, comparability of the information for the accounting year and the preceding years, significant accounting policies and other significant information for potential users of financial statements. Instances of non-compliance, if any, with the accounting rules must be reported in the explanatory notes with an appropriate explanation and discussion of the effect on the statutory financial statements. The notes must also announce changes in accounting policies for the following accounting year.

The regulations prescribe rules of disclosure that are in many respects comparable with international practice. These include post-balance sheet events, contingencies, related parties, earnings per share, segment information, government grants and others.

#### **Consolidated Financial Statements**

There is a requirement in Armenian accounting to prepare consolidated financial statements to be done in accordance with AAS on Consolidated Financial Statements and Daughter Company Investments Accounting.

#### **Publication of Financial Statements**

According to the Republic of Armenia on Accounting a company's annual statutory financial statements must be accessible to all interested users, including bankers, investors, creditors, buyers, suppliers, etc. Such users can receive copies of the annual statutory financial statements.

The Law of the Republic of Armenia on Accounting also establishes a requirement that the statutory financial statements for certain companies such as open joint stock companies, banks, foundations and insurance companies be published. Such companies shall publish their statutory financial statements in newspapers and magazines that are accessible to the users of statutory financial statements, or distribute (among the users) some sort of brochure containing their statutory financial statements, and also submit the statutory financial statements to regional state statistical authorities in accordance with the company's registration for further presentation to interested users.

The publication procedure for open joint stock companies requires that balance sheets, income statements and audit reports be published. Prior to publication, statutory financial statements must be approved by an AGM and audited. Depending on the volume of operations and the size of a company, it may publish a balance sheet and income statement in a short form or in full.

The deadline for publication is June 30 of the year following the reporting year.

#### **The Accounting Profession**

In accordance with the Law on Accounting, some of the accountants should have state certification on accounting; in particular this rule applies to the accountants of the entities whose financials statements require official publication (e.g. open joint stock companies, banks, foundations and insurance companies).

#### **Accounting at Branches and Representative Offices of Foreign Companies in Armenia**

The Law of the Republic of Armenia on Accounting is applicable to branches and representative offices of foreign legal entities in Armenia, unless otherwise stipulated under international agreements concluded by the Republic of Armenia.

### **Audit Requirements and Practices**

#### **Companies Subject to Statutory Audit**

The audit in Armenia is being done in accordance with the Auditing Standards of the Republic of Armenia. In accordance with Armenian auditing legislation, some companies are obligated to audit their annual statutory financial statements. Commercial non-governmental companies whose annual statutory financial statements are subject to statutory audit include:

1. All open joint-stock companies.
2. Banks and other credit institutions, insurance companies, commodity and stock exchanges, investment funds, charitable and other (non-investment) funds, etc.

In addition, annual statutory financial statements subject to publication must be audited by independent auditors prior to their publication.

#### **Audit Standards/Legislative Framework**

The Auditing Standards of the Republic of Armenia enacted in 2001 regulate audit activities. It defines audit services, establishes the rights, obligations, and liability of auditors and audit firms, discusses confidentiality and independence, and sets forth meaningful compliance regulations.

The Ministry of Finance and Economy of the RA is responsible for developing audit standards, issuing methodological recommendations, organizing forums for enhancing the level of professionalism of auditors, and regulating the activities of audit firms and auditors.

**The Audit Profession**

In accordance with Armenian auditing legislation, in order to conduct audit activities, audit firms should have special licenses for the audit of non-banking companies and the audit of banks. In order to conduct audit activities, individual auditors should have an audit certificate.

## CHAPTER 5. LABOR RELATIONS

### **General Information**

#### **Minimum Wages**

Minimum rate of monthly wages set by the RA legislation is AMD 13000 (thirteen thousand).

#### **Working Hours**

Standard workweek shall have five or six working days with maximum 40 working hours per week.

The law allows overtime work in specific cases and with compensation at double rate for overtime working hours (48 hours per week, not exceeding 12 hours per day).

#### **Annual Paid Leave**

According to the Labor Code, an employee is entitled to vacation with duration of 28 calendar days, however there is a provision on additional vacation privilege, the list of such jobs is set by the RA Government.

Vacation pay shall be made within three days preceding the first day of the paid vacation.

An employee shall be entitled to annual paid vacation after six consecutive months beginning with the date the employment began with the exception of persons transferred from another place of employment. Employment period in the previous place of employment shall also be calculated for such employees.

#### **Protection of Employee's Rights**

Employers shall not discriminate an employee on the basis of race, language, sex, age, religion, nationality and other grounds.

The RA law related to labor does not foresee any limitations for foreigners and foreign citizens in the Republic of Armenia.

#### **Labor agreement**

Labor agreement is an agreement between the employer and employee according to which the employee is obliged to perform certain work or provide services by profession and skills and comply with the labor discipline accepted in the working place, the employer is obliged to provide the employee with the work specified in the agreement, pay salary for the work done according to the agreement and provide working conditions as required by the RA legislation, as well as specified in the agreement.

#### **Types of Labor Agreements**

Major types of labor agreements are the following: labor agreement of unlimited duration, labor agreement with specific duration, the period shall be specified by the agreement. Moreover, when signing a labor agreement with specific duration the employer shall justify the reason for signing such agreement.

#### **Termination of Labor Agreement**

Reasons for termination of labor agreement are: expiration of the agreement period, mutual consent of the parties, initiative of employee or the employer (according to the RA law), conscription or entering military service of the employee (after the military service the employee has the right to restore the previous job), as well as other reasons stipulated by the legislation,

such as effectiveness of court decision, which disables the employee from performing his/her employment duties, and others.

**Social Security Payment**

Social security payments are mandatory contributions (hereinafter referred to as “social security payments”) made by legal persons and individuals, state and community institutions to finance the State Social Security Program in the rates stipulated by the RA Law on Mandatory Social Security.

Social security payments are made in Armenian Drams. Legal entities and individuals, state and local community bodies, diplomatic missions of foreign countries and consulates, international and intergovernmental organizations should make social security payments for their employees who are Armenian citizens.

Social contributions are made by:

- a) Employers: any individual or legal entity which has a right to hire employees and to enter into labour contracts with them;
- b) Employees;
- c) Private entrepreneurs.

Foreign citizens and stateless persons, as well as individuals and entities who have employed them are exempt from making social security payments.

Foreign legal entities, organizations established by them, citizens and stateless persons carrying out entrepreneurial activities in the Republic of Armenia are making social security payments for Armenian citizens employed by them in the regular order set by the Law.

**Objects of social security payments**

- a) Salary payment funds;
- b) Salaries and like incomes of individuals; (the list of incomes comparable with salaries is set by a separate decision of the RA Government). The incomes received from provision of services under civil agreements are also included in this list.
- c) Annual gross income of private entrepreneurs less the amount of expenses made in connection with making the profits as stipulated by the Law on Income Tax, not taking into account the personal deductions.

The list of salary payment funds and like incomes is defined by the Government of the Republic of Armenia.

Social security payments for each employee shall be paid by employers at the following rates:

Monthly Income	Amount of Social Security Payments
Up to AMD 20,000	AMD 5,000
From AMD 20,000 to 100 000	AMD 5,000 plus 15 percent of the amount exceeding AMD 20 000
Over AMD 100,000	AMD 17,000 plus 5 percent of the amount exceeding AMD 100,000

Note that social security payments shall be calculated by each employer without taking into account mandatory social security payments made by other employer(s) for that employee.

Employees pay social security payments equal to 3 percent of the salary and like incomes. These payments are retained by employers.

Individual entrepreneurs shall make social security payments at the following rates:

Annual Income	The Social Security Payments (rate)
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Up to AMD 1,200,000	15 percent, but not less than AMD 60,000
Over AMD 1,200,000	AMD 180,000 plus 5 percent of the amount exceeding AMD 1,200,000

Private entrepreneurs shall pay a minimum of AMD 5,000 monthly on no later than the 15<sup>th</sup> day of the following month. Private entrepreneurs shall make social security payments for employees hired by them at the rates stipulated for legal entity employers.

Legal entities and individuals, State and community institutions shall calculate and make social security payments to the authorized bodies no later than the 20th day of the following month.

For late submission of the payments, a fee equal to 0.15 percent of non-submitted due payment for each delayed day within the period of 365 days will be applied.

Overpaid amounts are set-off from the amount of applicable fees, or upon the consent of the employer, from the amount of future due payments, or shall be refunded within 30 days after the date of such application. Thereafter for every day of delay the authorized body pays a fee equal to 0.15 percent of the amount due to be refunded.

For each year, the private entrepreneurs shall submit income statements to the authorized body no later than 25th of March following the reporting year. The forms of income statement shall be approved by the authorized State bodies.

The employer shall submit a report to the authorized body for each quarter, no later than the 25th day of the month following the quarter. Forms and procedures for filling out the reports shall be approved by the authorized State bodies.

## **CHAPTER 6. INTELLECTUAL PROPERTY, ECONOMIC COMPETITION AND RELATED ISSUES**

### **Legislative Framework**

Currently, the intellectual property related issues are regulated by RA Civil Code, RA Law on Intellectual Property and Neighbouring Rights and the Law on Patents. The Republic of Armenia is a party to a number of international agreements and conventions, including the 1883 Paris Convention on Protection of Industrial Property, 1886 Berne Convention for the Protection of Literary and Artistic Works, and the 1995 Agreement on Trade-Related aspects of Intellectual Property Rights (TRIPS).

Taking into account that international agreements ratified by RA are considered integral part of the RA legislation and that international conventions shall prevail in case of a contradiction, it could be stated that the RA legislation in the field of intellectual property rights meets the international standards.

### **Copyright**

The RA legislation on copyright is intended at protection of authorship. This field considers the rights of individuals over the objects of copyright created by them. Such individuals have exclusive rights to legally dispose of their creations subject to copyright.

Even if the author transfers his rights of ownership, exercise and disposal to another person (including legal entities) by an agreement, he/she does not forfeit the rights of authorship (copyright).

If the work of authorship was created during the employment (by instruction of employer), the employer may assume all related rights according to an agreement, except for the right of authorship. In such cases issues related to author's compensation from revenues generated from further use of the object are regulated by agreements.

For pointing out his/her rights, the holder of exclusive copyright may place a mark with a Latin letter "C" in a circle (©) with his/her name and the date of first release.

### **Patenting**

Patents certify and legally protect inventions, models, and industrial designs.

Patents certify the authorship and the priority in exploitation, as well as the exclusive right to exploit such object.

A patent for an invention shall have effect during 20 years after the date when the patent was granted on the basis of essential examination (principal patent), or for 10 years, when it was granted without an essential examination (preliminary patent).

The patent for an industrial design is issued for the period of 15 years and the patent for a model for 10- year period.

Patents are given to the author (co-authors), their successors, employers, or other persons mentioned in the agreement with the author or its legal successors.

The right of obtaining patent for an object created during course of employment or at the instruction of employer shall belong to the employer if stated so in the employment or another agreement.

Priority over the industrial patent is considered by the date of submitting patent application to the appropriate State body.

### **Trademarks**

Republic of Armenia is participating in the Paris Convention on Protection of Industrial Property.

Trademarks and service marks (hereinafter «trademarks») are marks that distinguish products and services of one person from those of another.

In the Republic of Armenia, trademarks are protected on the basis of State registration of trademarks.

Owner of the registered trademark is given a certificate on registration of the trademark. The certificate acknowledges the fact of registration of the trademark, the priority, as well as the exclusive right of utilization of the trademark on products listed in the certificate.

Trademarks may be registered also as “collective marks”. The collective mark is a trademark of a commercial partnership, association of legal entities, or other business organizations or associations.

In order to certify registration of the trademark, the owner of the registered trademark may place a Latin letter “R” either within or without a circle (®) as proof of a registered right, as well as the phrases “Trademark” or “Registered Trademarks”.

Trademarks, except for collective marks, can be transferred to another person. Transfer is prohibited if it would mislead consumers with respect to products and their producers.

Owner of the trademark has the right to give permission on use of trademark to other persons on the basis of license agreement, yet on conditions that the products of the licensee should be competitive with the products produced by the licensor.

Products transfer and license agreements are subject to registration in relevant State bodies. Unregistered agreements are invalid.

According to the RA legislation certain products should be labelled with registered trademarks, the list of such products is identified by a separate decision of the RA government.

### **Economic Competition**

Economic competition in the Republic of Armenia is regulated by the RA Law on Protection of Economic Competition. This law prohibits abuse of monopoly, anti-competitive agreements, as well as unfair competition meanwhile exercising control over concentrations. The mentioned activities are subject to registration at the RA State Commission for the Protection of Economic Competition.

The definition of market standards and dominant position, as well as anti-competitiveness of agreements and unfairness of competition is determined by the State Commission for the Protection of Economic Competition of the RA which has authority to consider appeals and to impose penalties and other sanctions.

### **Licensing**

The business entities and private entrepreneurs are free to conduct any type of business activity in Armenia. There are certain types of economic activities, though, that may be carried out only after getting a relevant license. The procedures for licensing and types of activities subject to licensing are defined by the law.

The procedures for licensing are divided into simplified and composite.

The issuance of a license through simplified licensing procedure is regulated only by the respective law. Simple licenses are issued without prior approval of the Licensing Committee.

Simple licenses are unlimited in time. These licenses will be issued in three days upon submission by the applicant of the documents required by the law.

All simple licenses are issued by one State agency authorized by the Government of the RA.

The relations arising in connection with issuance of a license through composite licensing procedure are regulated by the law and licensing orders.

Composite licenses are also unlimited in time and will be issued within thirty days upon submission of the documents required by the law, unless otherwise stipulated by the law.

Issuance of composite licenses may be competition-based. The competition shall be conducted according to licensing orders.

Composite licenses are issued on the basis of conclusions of licensing committees established by State licensing bodies.

The list of business activities subject to licensing is provided for by the law. This list is exhaustive.

Some of licenses require annual payment of state duties.

### **Conformity of Goods and Services to Normative Requirements**

The RA Law on Certification of Conformity of Goods and Services to Normative Requirements regulates the implementation of voluntary or mandatory assessment on conformity of goods and services to normative requirements, as well as establishes legal basis for State control in this field and determines conditions for provision of goods and services in the market.

The process of certification of conformity envisages provision of certificates or conformity declarations.

Depending on types of goods and services, certification of conformity is carried out on mandatory or voluntary basis.

The list of goods and services subject to mandatory certification is approved by the Government of the Republic of Armenia.

Voluntary certification is conducted at the initiative of an applicant for verifying the compliance of various standards to normative requirements.

The voluntary certification is conducted by the certification body within the limits of its professional competence and based on a contract concluded with the applicant.

### **Standardization**

Standardization is a function aimed at achievement of prime standard of regulation in a particular area.

Depending on the area of expertise and the competence of application, standards are distinguished as international, regional, interstate, national and internal.

Subjects to standardization are the goods (the production), the work/labor process, and services.

The requirements specified in the normative standardization documents must be based on the latest achievements in science and technology, as well as international, regional, and interstate standards, standardization rules and norms, including national standards of other countries, taking into consideration the terms and conditions of product designation, performance of works and provision of services. The requirements specified in the normative standardization documents shall not contradict the legislation of the Republic of Armenia.

These are the National Standards applied by the Republic of Armenia: Republic of Armenia standards, and international, regional, interstate, and national standards of other countries, which are functional in the Republic of Armenia.

For the National Standards, the “Đê” (Armenian Standard) classifier is used. The National Standards, as well as the amendments therein are subject to registration by the State.

## CHAPTER 7. TAXATION

### **Introduction**

According to the Constitution of the Republic of Armenia, everyone shall pay taxes, duties, and make other mandatory payments in the amounts and manners prescribed by law (Article 4). Hence, taxes, duties and other mandatory payments, as well as procedures of their payment in the Republic of Armenia are stipulated only by the law.

The taxation in the Republic of Armenia is based on a single system. In the Republic of Armenia, taxes are paid to the State and community budgets in Armenian currency (AMD).

The tax legislation of the RA prohibits double taxation.

### ***Major types of taxes***

Following types of taxes exist in the Republic of Armenia: Profit tax, Income tax, Value-added tax, Excise tax, Land tax, Property tax (Article 12 of RA Law on Taxes).

All tax issues are governed by individual laws on specific taxes, which particularly define the scope of taxpayers, procedures for tax calculation, tax concessions, tax rates, payment procedures.

### ***Tax year***

The fiscal year in the Republic of Armenia runs between the 1<sup>st</sup> day of January and 31<sup>st</sup> day of December. New taxes may be introduced and existing tax rates may be changed only at the beginning of a fiscal year (or in case of the State budget being approved in the course of the reporting fiscal year - from the moment of its approval), unless otherwise provided by the Law on certain tax.

The same tax may be levied on the same object of taxation only once within the same reporting period.

### ***The legal framework***

The legislation of the Republic of Armenia on taxes consists of the following legal acts: the RA Constitution, RA Law on Taxes, laws on certain taxes, Decisions of the Government of the RA implementing the requirements of laws, legal acts of the authorized tax agency (methodical instructions, etc.). The international agreements represent the other part of the tax legislation. In case of a conflict between the provisions of RA laws and international agreements, the latter shall prevail.

There is no reference to legal precedents (case-law) by the legal system of the Republic of Armenia.

### ***Tax agent***

In cases stipulated by the laws of the Republic of Armenia, the responsibility of levying a tax may be assigned to the tax agent.

The tax agent is a legal person (including an institution, branch or representative office of a foreign legal entity), individual entrepreneur, and institution, local/municipal entity which is required by the law to calculate, retain and transfer taxes to the State or local budgets. The tax agent calculates, retains and transfers the taxes on income paid by the agent to the taxpayer.

### ***Taxation at the source of income***

The Resident organizations in Armenia are considered tax agents for their employees, as well as for non-resident individuals. The tax agent is responsible for the calculation and payment of the tax to the State budget, as stipulated by the law.

The tax from an employee's income shall be withheld by the tax agent.

### ***Fees***

In case of a delay in paying taxes, the taxpayers will be imposed fee at the rate of 0,15 percent of the amount of the not-paid tax, for each overdue day. The fee shall accrue for no more than 365 days.

### ***Penalties***

Penalties and fines are imposed in case of failure to file or untimely filing of the tax declaration, failure to pay or untimely payment of taxes, or for submission of incomplete or incorrect information on income.

Individuals, including company managers in case of violation of tax legislation may be brought to administrative responsibility and certain penalties may be imposed.

## **Taxation of companies**

### **Profit tax**

Profit tax is a direct tax paid by taxpayers to the State budget in the amount and according to the procedure established by the law.

The profit tax in the Republic of Armenia is paid by (the taxpayers are) the residents of the Republic of Armenia (hereinafter - residents) and non-residents.

Taxable profit is the positive difference between gross profits of the taxpayer and deductions defined by the Law on Profit Tax.

The taxpayers shall determine the amounts of profit tax based on the results of each calendar year.

For the residents, the object of taxation includes the taxable profit received within and outside the territory of the Republic of Armenia.

For non-residents, the object of taxation includes the taxable profit received from Armenian sources.

The gross profit is the total revenue of the taxpayer received in the reporting year, irrespective of the source.

Inflow, growth of assets or decrease of liabilities within the reporting year, which leads to the growth of the taxpayer's equity capital, shall be considered as income.

The legislation also defines cases when inflow, growth of assets or decrease of liabilities is not considered as income.

The outstanding debts of a taxpayer (loan, tax liability, etc.) shall be considered liability.

When determining taxable profit, deductions from gross income are allowed (expenses, losses and other deductions).

When determining taxable profit, gross income shall be reduced by the amount of necessary document-supported expenses.

Outflow and decrease of assets, or the growth of liabilities within the reporting year, which leads to the decrease of the equity capital of a taxpayer, shall be considered as expense.

The legislation also defines cases when outflow and decrease of assets, or the growth of liabilities is not considered expense for determining taxable profit.

The amount of profit tax shall be calculated at 20% rate on the amount of taxable profit.

Taxpayers shall pay the amount of the profit tax to the state budget before April 25 (inclusive) of the year following the reporting year.

In case if the total amount of investment in the charter capital of a resident with foreign participation (except banks) made by foreign investors after 1 January 1998 amounts to at least AMD 500 million, the amount of the profit tax for that resident shall be reduced as follows:

Year of investment	By 100%
2003	2004 and 2005
2004	2005 and 2006
2005	2006 and 2007
2006	2007 and 2008
2007	2008 and 2009

In case the taxpayer is liquidated at the time when the tax holiday was effective, the amount of the profit tax for the period of the exemption shall be calculated at the full applicable rate, for the entire period of activity. This tax holiday does not apply to investments of non-tangible assets.

A taxpayer must make advance payments of the profit tax during the year. Advance payments shall be made monthly, in the amount of 1/16 of the actual amount of the profit tax for the previous year, not later than on the 25th day of the current month.

A newly founded taxpayer may abstain from making advance payments by 25<sup>th</sup> of April of the following year, if notified on this the Tax Inspectorate in advance.

A taxpayer can abstain from making advance payments of the profit tax after submission of tax invoice, if he/she did not have taxable profit in the preceding year, or in case when the amount of taxable profit for the preceding year did not exceed AMD 500.000.

At the end of the reporting year, the taxpayer shall calculate the amount of the profit tax on the basis of the calculated taxable profit, setting off the amount of the advance payment made for the respective reporting year.

The RA Law “On Profit Tax” provides for minimum profit tax payment. In case the advance payment on profit tax in the amount calculated by the above method is less than the difference between income (excluding indirect taxes paid for receiving that income) calculated by the accrual method on the sale of goods (with the exception of fixed assets, as well as securities and stock goods), products, services rendered in the previous month and depreciation allowances calculated on the fixed assets, in the part not exceeding 50 percent of that income in the same period, in such case the minimum profit tax shall be paid at the rate of 1 percent of this difference. The positive difference between the annual total of minimum profit tax and the actual profit tax for the reporting year shall be deducted from the profit tax of the following years and is not subject to reimbursement or offset in any other way.

The taxpayer must pay the amount of profit tax to the state budget prior to April 25 (inclusive) of the year following the reporting one.

The profit tax levied on the income amount of a taxpayer in the Republic of Armenia shall be reduced by the amount of profit tax withheld from residents in foreign countries in accordance with the legislation of these countries.

If the amount subject to reduction exceeds the profit tax liability generated from the outcome of the reporting period the exceeding amount shall be deducted from the profit tax amount of the following reporting years.

In this part of the Guide related to profit tax, we did not address the issues of taxation of income generated in the territory of the Republic of Armenia by branches and representations of foreign legal entities. We believe this is a separate consulting issue and each case should be studied individually because a specific taxation method should be determined with the approval of relevant regional tax authority.

## **Taxation of individuals**

### **Income tax**

Income tax is a direct tax paid by taxpayers (or by a tax agent in cases specified by law) to the state budget in the amount and according to the procedures stipulated by the law.

In the Republic of Armenia, income tax is paid by (taxpayers are) resident (hereinafter referred to as “residents”) and non-resident physical persons (individuals).

The taxable income received within or outside the territory of the Republic of Armenia is considered to be the object of taxation for resident taxpayers.

For non-residents, the object of taxation includes the taxable income received from Armenian sources.

The taxable income is the positive difference between the gross income of a taxpayer and the deductions made pursuant to the provisions of this law.

Gross income is the total of all earnings received by a taxpayer within a reporting period irrespective of the source. The RA Law on Income Tax also specifies the types of revenues, which are not considered as income for taxation purposes.

When determining taxable income, gross income shall be reduced by the amount of pension, employment and social security payments made by the taxpayer. Moreover, the gross income is reduced by AMD 20,000 for each month when income is received.

Additionally, when determining taxable income, the gross income of the taxpayer derived from business activity and from commercial contracts shall be reduced by the amount of necessary and document-supported expenses based on the tax statement submitted by individuals.

Income tax is calculated at the following rates:

<b>Amount of Monthly Taxable Income</b>	<b>Tax Amount</b>
Up to AMD 80,000	10 percent of taxable income
Over AMD 80,000	AMD 8,000 plus 20 percent of the amount exceeding AMD 80,000

The income tax on the income not taxed by tax agents shall be calculated using the following rates:

<b>Amount of Annual Taxable Income</b>	<b>Tax Amount</b>
Up to AMD 960,000	10 percent of taxable income
Over AMD 960,000	AMD 96,000 plus 20 percent of the amount exceeding AMD 960,000

The income tax on royalties and the revenues generated from the lease of property shall be calculated at the rate of 10 percent without taking into account the deductions specified by the law. The income tax on the interest shall be calculated at the rate of 10 percent without taking into account the deductions specified by the law. Tax agents calculate income tax at 10 percent rate from the income paid for acquisition of property to individuals, taking into account only the deductions from income received from securities and agricultural products.

When paying income to foreign citizens and stateless persons, the tax shall be levied by a tax agent at the source of income and at the following rates:

Type of income	Amount (in %)
Income received from insurance and income received from freight	5
Royalties, interests, lease payments, appreciation of property and other passive income (with the exception of income received from freight, as well as other passive income received from the sources in Armenia (as well as from business activity))	10

Taxation of foreign citizens and stateless persons shall be performed on the total amount of the paid income with affecting deductions on income received from securities only. The income tax on salaries and like revenues should be calculated and withheld (collected) at the rates specified for RA citizens, without making personal deductions provided by the law.

A tax agent shall pay the withheld (collected) tax amount to the budget not later than the 5th day of the month following the payment of income to individuals.

Individual taxpayers shall submit to the tax office of its residence/registration the tax statement on their annual income not later than March 1 of the year following the reporting year. The income tax shall be advanced into the budget not later than on May 1 of the year following the reporting tax year.

The taxation of income received from Armenian sources by non-resident individuals shall be performed pursuant to the general procedure established by the law. Only the income received by non-residents from Armenian sources which is a result of offshore economic activities is subject to tax exemption.

On a quarterly basis, organizations and individual entrepreneurs should submit a written information (in the form stipulated by the Tax Inspectorate of the Republic of Armenia) on the amounts of income paid to individuals in the previous quarter, addresses of their domicile (registration) and the amounts of income tax withheld from the mentioned income and transferred to the State budget – to the tax authorities of their residence (registration), not later than on the first day of the second month of the following quarter.

## **Taxation of property**

### **Land tax**

Landowners, as well as permanent or temporary user of the State-owned lands, are considered payers of land tax.

The tax on rented lands shall be levied from the landlord.

The amount of the land tax shall not depend on the results of the taxpayers' economic activities and shall be stipulated as an annual fixed charge per unit of the land lot.

For non-agricultural lands the land tax is stipulated at the following rates:

a) for the lands used for industrial purposes the land tax shall be calculated proportionate to the cadastral value at the following rates:

- in populated areas -1 percent
- out of populated areas -0.5 percent.

b) land tax for other non-agricultural lands shall be determined at 1% of its cadastral value.

Taxable areas shall include lands occupied by buildings and constructions, territories necessary for their maintenance, as well as sanitary, technical and other zones of the units.

The land tax shall be calculated beginning from the month following the acquisition of the ownership right or the permanent or temporary lease of the land.

Documents confirming the ownership rights, as well as the right of permanent or temporary use of land shall be relied upon for land tax calculation.

Tax payer organizations shall calculate the land tax by themselves and shall submit the calculations for each taxable land lot to the State Tax Inspectorate agencies no later than September 1 of each year.

The calculations on taxation of the newly acquired land lot shall be submitted within a one-month period following the acquisition of the leasing rights on the land.

The registration of taxpayers and the calculation of the land tax shall be performed as of 1 July of each year.

The State Tax Inspectorate agencies shall maintain registry of taxpayers, oversee the tax calculations and timely submission of tax payments and reports.

The amounts of the calculated tax shall be paid by taxpayers on a quarterly basis by the 25th day of the month following a quarter.

### **Property tax**

Taxpayers for the purposes of the Law on Property are the organizations, citizens and persons without citizenship who own property in the Republic of Armenia that is a taxable object as defined by the Law.

#### The Taxable Object and the Tax Base

The following items belonging to the taxpayer with the right of ownership are a taxable property:

- Apartments (in a multi-apartment building), garages, garden-houses, the private residential houses with adjacent premises, buildings for public or industrial exploitation, incomplete (partially built) construction sites, multi-apartment buildings with non-residential premises;
- Motor vehicles;
- Motorcycles;
- Boats.

Property tax base is the value or the volume, as well as such other attributes of the taxable object based on which the property tax is calculated in accordance with the rates and procedures provided by the RA Law on Property Tax.

#### Tax Rates

The property tax for buildings is calculated at the following annual rates:

- Buildings for public and industrial exploitation- 0.6% of the tax base, beginning from January 1 2005 – 0.3%,
- for garages – 0.2%,
- for other residential buildings:

Tax Base	Tax Rate
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Up to AMD 3 million	0% of tax base
From AMD 3 million to 10 million	AMD 100 plus 0.1% of any amount exceeding AMD 3 million of tax base
From AMD 10 million to 20 million	AMD 7,100 plus 0.2% of the portion exceeding AMD 10 million
From AMD 20 million to 30 million	AMD 27,100 plus 0.4% of the portion exceeding AMD 20 million of tax base
From AMD 30 million to 40 million	AMD 67,100 plus 0.6% of the amount exceeding AMD 30 million of tax base
AMD 40 million and more	AMD 127,100 plus 1.0% of the portion exceeding AMD 40 million of tax base

The annual rate of property tax on boats is calculated at AMD 150 for each horsepower of tax base.

Property tax for motor vehicles is calculated at the following annual rates:

1) cars with up to 10 passenger seats, if tax base is:

- from 1 to 120 horsepower - AMD 200 per horsepower;
- from 120 to 200 horsepower – AMD 300 per horsepower;
- 250 horsepower and more – AMD 500 per horsepower
- 150 horsepower and more - additional AMD 1,000 for each horsepower.

2) cars and trucks with 10 and more passenger seats, if tax base is:

- up to 200 horsepower – AMD 100 per horsepower;
- 200 and more horsepower – AMD 200 per horsepower.

The property tax on up to three years old motor vehicles is calculated at the rate of 100%. The amount of property tax on more than three years old motor vehicles is reduced for each year following the third year by 10% but no more than 50% of the tax amount.

No Property tax is levied on more than 20 years old trucks.

#### Property Tax Vacations

The following items are exempt from property tax:

- Objects of “line-engineering or transportation” if their exploitation is not subject to charges;
- Water reservoirs;
- Objects of historical and cultural significance if listed as such by the Government of the Republic of Armenia;
- Property belonging to the individuals in compulsory military service.

Property tax exemptions for certain taxpayers may be also stipulated by local self-government bodies. The total amount of tax exemption in these cases cannot exceed the 10% of the amount of property tax revenues as approved for the budget of the local community for the particular year.

#### The procedure of calculation and the terms of payment

Taxpayer organizations shall submit quarterly tax statements on property tax to relevant bodies until the 25<sup>th</sup> day of the month following the reporting quarter. The payment of the tax shall be advanced to the relevant budget until the first day (inclusive) of the second month following the reporting quarter.

Taxpayer individuals calculate the property tax by themselves and submit annual statements by October 1st (inclusive) of the reporting year. The individuals considered as taxpayers pay the annual property tax to the relevant budget by December 1 of the reporting year.

## **Indirect Taxation**

### **Value Added Tax (VAT)**

The Value added tax (VAT) is an indirect tax which, in compliance with the law, shall be paid (levied) to the State budget for imported goods at all stages of their production and turnover, as well as for provision of services on the territory of the Republic of Armenia.

According to RA Law on Value-Added Tax (effective since July 1, 1997), individuals, legal entities, and enterprises without the status of a legal entity carrying out independent business (entrepreneurial) activity in accordance with the procedure defined by the law and implementing taxable transactions (operations) shall be considered VAT payers.

Any activity implemented regularly for the purpose of generating income (profit) shall be considered entrepreneurial activity.

Individuals shall be taxed with VAT according to the procedures stipulated by the RA Law on Value-Added Tax and the RA customs legislation, when importing goods into the territory of the RA provided the number or the value of the imported goods exceeds the rates established by the law.

Legal entities and individual entrepreneurs shall be value added taxpayers if they are not subject to simplified tax. In general, the value added tax is applicable to transactions that are not subject to either simplified or presumptive tax.

Individuals, other than individual entrepreneurs carrying out business activities, are considered VAT payers in the current year if the revenue generated from their transactions exceeds 3 million drams.

The following transactions (operations) shall be subject to VAT:

- Supply of goods - a transaction that is carried out by transferring the ownership right over the goods (including industrial products and real estate) to others against compensation;
- Rendering of services - a transaction (operation) other than supply of goods, implemented against any form of compensation, including the sales (transfer) of intangible assets. The lease of goods and real estate shall also represent rendering of services.
- Free or partially free utilization - free supply of goods or rendering of services performed by VAT payers pursuant to the procedure defined by the law or delivery of goods and provision of services at significantly lower prices than usually charged for such transactions (operations).
- Import of goods under "Importing for Free Turnover" customs regime, with the exception of cases specified by the law.

For goods imported into the territory of the RA the VAT is calculated and collected at the border of the RA by customs officers, with the exception of goods imported by organizations and individual entrepreneurs and included in the list defined by law which are taxed at zero rate customs duty for import and are not subject to excise tax.

### **Non-Taxable Objects**

The following shall not be subject to VAT:

- the amount of state duty;

- free of charge provision of goods and services by taxpayers, when provided so by the decisions of the Government of the Republic of Armenia;
- in case of transactions with partial compensation – the difference between the taxable turnover (determined by the procedures established by the law) and the compensation received;
- transactions on changing the ownership (including privatization) of legal persons, enterprises without the status of a legal person, as well as transactions on nationalization;
- transfer of property or property rights to the State in form of confiscation or donation;
- delivery of goods and rendering of services by budgetary (public) institutions of the Republic of Armenia – at the extent of the part the revenue from which is entirely credited to State or municipal budgets;
- import of goods by individuals for personal consumption specified by the Law;
- import of personal property by citizens entering the Republic of Armenia for permanent residence.

#### Uniform standard of VAT Collection

Since July 1<sup>st</sup> 1997, a single standard of VAT collection has been effective in the RA based on the principle of “destination”. For any goods imported to RA from any country the VAT is set at 20% rate, VAT for export of goods and services to any country is set at zero rate.

#### Taxation of Foreign Citizens

In case of foreign entities conducting business activities subject to VAT in Armenia (including import of goods belonging to the mentioned entities) without being registered as business organizations in the Republic of Armenia, the Armenian counterparts (citizens, individual entrepreneurs, legal entities, local government entities and state entities) of these entities (including contractors) shall carry the tax responsibility on behalf of foreign entities with regard to the mentioned activities in accordance with the procedure and deadlines defined by the law.

#### Tax Rates

The rate of VAT is set at 20% of taxable turnover of goods and services.

#### VAT Exemptions

Exemption from VAT is the waiver on accrual of VAT on taxable turnover.

The following shall be exempt from VAT:

- The fee for studies at secondary schools, vocational schools, specialized secondary and higher educational institutions;
- Sales of copy-books and textbooks for secondary schools, children’s and school literature, school educational publications; sales of scientific and educational editions published by higher educational institutions, specialized scientific organizations and the National Academy of Sciences of the RA;
- Scientific and research works;
- Sales of agricultural products produced in the RA (effective till January 1, 2009);
- Services related to care of children in preschool institutions, orphanages, institutions for disabled children and persons, nurseries;
- Sales of newspapers and magazines;
- Religious ceremonies, sales of religious items to the religious organizations, as well as sales of these items by religious organizations;

- Insurance and reinsurance, including related services, which are rendered by insurance mediators and agents;
- Operations related to pension insurance, including related services, which are rendered by mediators and agents;
- Sales of donor blood, breast milk, prosthetic and orthopedic items, medical assistance services (including prophylactic diagnostic measures), goods related to the treatment and prepared within the context of medical assistance and by patients in prophylactic enterprises and organizations, and services rendered by them;
- Procurement of goods and provision of services under loan and grant programs of international financial organizations, according to the procedure established by the Government of the RA;
- Donation and other contributions to public (including benevolent) and religious organizations, etc.

This list is not exhaustive.

VAT exemption and other tax privileges may be stipulated only by the Law.

#### Zero Rate Taxation

Taxation of VAT at zero rate shall be the application of VAT at zero rate to the turnover of transactions specified in Article 16 of RA Law on Value-Added Tax.

When entering into transactions (operations) taxable at zero rate, the amounts of VAT for the purchased goods and rendered services indicated in the tax invoice, submitted by the suppliers, shall be subject to refund (set-off) according to the general procedure established by the law.

#### Invoice

VAT payers must provide tax invoices for delivery of goods and rendering of services subject to VAT. The document certifying the delivery of goods and provision of services in the required form shall be considered a tax invoice. For VAT calculation and set-off only accurately filled out invoices having a separate line which specifies the tax amount will be considered. The RA Law on Value Added Tax provides the list of data and requisites that should be indicated in the invoice.

Pursuant to this law, VAT payers must keep accounting in chronological order and keep all copies of tax invoices issued, invoices confirming payment of VAT for the receipt of goods and services, declarations confirming the payment of VAT to the customs bodies when importing goods, as well as other documents related to the calculation and payment of VAT for at least three years from the date of completing the listed documents.

Set-off of goods and services purchased or received for production or other commercial purposes shall be made only against payment made through bank transfers.

The amounts for transactions not remitted through banks shall be set-off if the amount of a transaction related to the supply of goods and services (without VAT) does not exceed:

- AMD 300,000 for lump-sum transactions in 2004 and AMD 3 million for all such transactions within the reporting month;
- AMD 100,000 for lump-sum transaction in 2005 and AMD 1 million for all such transactions within the reporting month.

#### Procedures for Provision of Information on VAT

Special procedures for provision of information to the tax authorities on invoices set-off to VAT-payers against goods and services received from suppliers in the reporting period, as well as invoices set-off against goods and services delivered by them have been effective since July 1<sup>st</sup> 2001. According to the Decree N481 of the Government of the RA dated May 30, 2001, when the amount of taxable turnover exceeds AMD 500 thousand, including the received and provided invoices, the taxpayer must inform the tax authorities on this fact.

If VAT amounts for supply or purchase of goods and provision or receiving of services are not included (reported) in the information submitted to tax entities, the person who has submitted information shall be charged penalty at AMD 5,000 per piece of false information (tax invoice).

#### Tax Calculation and Payment Terms

Payment of VAT to the State budget shall be made for each reporting period.

For the persons whose revenues from operations exceeded AMD 60 mln. in the previous calendar year, the VAT reporting shall take place on a monthly basis.

The calculated VAT amounts shall be paid to the State budget before the 20th day (inclusive) of the month following the reporting period.

There may be no prepayments for VAT.

Final calculation of VAT should be submitted at each reporting period within the deadline specified by the law.

#### Responsibility for Violation

In case of hiding or reporting reduced figures on the taxable turnover subject to VAT, or otherwise in case of reduction of payable amounts in breach of the Law on Value Added Tax, such taxpayer not complying with tax legislation requirements shall be obliged to reimburse the amounts circumvented, as well as will be subject to penalty equal to 50% of their total.

#### Excise tax

Excise tax is an indirect tax paid to the state budget by importers of certain goods (the list of these goods is specified by the legislation) or by producers of such goods, distributed in the Republic of Armenia.

The following goods shall be subject to excise tax: beer, grape and other wines, wine ingredients, spirits and alcohol drinks, cigars, cigarillos and cigarettes with tobacco or its substitutes, petrol, raw oil and oil products, diesel fuel, petroleum gas and other gaseous carbohydrates (except for natural gas).

Excise tax for imported goods shall be paid within 10 days after the date of import.

Imported goods are exempt from excise tax if these goods are imported under special customs regime (temporary admission, or import) and imported by individuals (not exceeding established limits).

#### **Other taxes and duties**

##### ***Simplified tax***

Simplified tax is a tax substituting VAT and/or profit tax (income tax) paid to the State budget for business activities at rates and within the time stipulated by the law.

For commercial organizations, the simplified tax substitutes VAT and/or profit tax. For individual entrepreneurs and notaries the simplified tax replaces the VAT and/or the income tax

#### ***Presumptive Payments***

Presumptive payment is a compulsory and non-refundable charge, replacing VAT and (or) profit tax (income tax), levied to the State budget at rates and terms stipulated by the law.

For individuals presumptive payment replaces VAT and (or) income tax.

For legal entities, presumptive payment replaces VAT and (or) profit tax.

#### ***Highway payment***

Highway payments are mandatory payments to the State budget in the amount and according to procedures provided for by the law with the purposes of generating necessary funds for organization and implementation of construction, repair and maintenance of public highways.

#### ***Environmental Payment***

This is a compulsory charge that generates funds for implementation of environmental programs and is paid to the State budget (as stipulated by law) or, in certain cases specified by relevant law, to the budgets of local communities.

#### ***Natural resources utilization payment***

This payment is made to the State budget and is aimed at effective and comprehensive use of State-owned natural resources, as well as for creation of equal economic conditions for users of natural resources of different value.

#### ***Local Duties***

Local duty is a mandatory payment levied against the functions implemented by the local self-government bodies according to the law and paid to the local budgets. In certain cases specified by law local duties are collected on a regular basis.

#### ***Local Payments***

Local payments are mandatory charges levied by local self-government bodies for implementation of specific functions. Local payments are made to the community budgets in accordance with the procedure and at rates and terms stipulated by the law.

#### ***State Duties***

The concept of state duties, its types, rates, payers, procedures and conditions for collection, reimbursement, exemptions, as well as other issues associated with state duties are stipulated and regulated by the RA Law on State Duties.

The state duty is a mandatory payment collected from physical and legal persons for implementation of various public administration functions by state bodies. The list of services and functions subject to state duty, as well as its rates are comprehensively provided for by the Law on State Duties.

Payer of a state duty shall be the physical and legal entities utilizing the services or functions specified by the Law.

State duty rates shall be set based on the value of the property to be evaluated or based on the basic rate established by the Law. The basic duty is currently set at AMD 1,000.

## **Import**

### **General Issues**

The Republic of Armenia is a member of the World Trade Organization (WTO). There is no import quota that is going to be imposed on a WTO member-state. No license for importing to the Republic of Armenia is going to be applied.

Customs issues in the RA are regulated by the Customs Code.

### **Customs Duty**

Customs duties are mandatory payments for goods imported into and exported out of customs territory of the RA and made to state budget at rates and by procedures defined by Customs Code. For the majority of imported goods a flat rate at 10% is applied.

The following customs duties apply in the Republic of Armenia according to their functional operation:

- a) export duties- paid for goods exported out of the customs territory of the RA,
- b) import duties- paid for goods imported into the customs territory of the RA,
- c) seasonal - paid for export or import of special goods out of or into the customs territory of the RA during certain times of the year.

The following customs duties apply in the RA according to calculation method:

- a) ad valorem duties - calculated on the value of the taxable goods,
- b) presumptive (fixed) - calculated by fixed rate for each unit of taxable goods,
- c) combined – combining the two previous methods.

The following customs duties are set for the purposes of protecting the economic interests and promoting the economy of the Republic of Armenia:

- a) retaliating - applied as a retaliating measure against discriminatory activities against the RA,
- b) protective - applied for the purpose of reducing customs duties for goods imported from certain countries.

Once every 180 days, individuals may import in their luggage duty free goods worth not more than AMD equivalent of USD 300 and not exceeding 50 kilograms total weight. If an individual imports such luggage more than once in 180 days, the imported goods are subject to customs duties.

Individuals may also transfer duty free personal belongings. Note that the requirement of 180 days does not apply to “border trading”. In this case, one is eligible for the exemption once in a month. If Armenia or foreign citizens import goods of obviously commercial quantity and nature applying the “import for free trading” or “re-import” customs regimes, customs authorities are entitled to require:

- a) the contracts on supply of goods signed with individuals or legal entities of the RA- in case of foreign residents;
- b) that the importer gets registered as a person (legal entity or individual) conducting business activity in the RA.

The amounts and the quantities qualifying as “commercial quantity” are stipulated by RA Government.

The amount of overpaid customs duties is subject to set-off from the amount of other liabilities payable to the customs bodies or shall be reimbursed to the payer within 30 days upon submission of a claim.

### **Customs Payments**

Customs payments are mandatory payments to the state budget in the order and at rates stipulated by the Customs Code.

The customs payment is charged for customs inspection, screening and registration of goods and means of transport passing across the customs border of Republic of Armenia, as well as currency and foreign exchange transferred by banks and goods and commodities transferred through pipelines and deliveries via electric lines.

The customs tariff will be charged at its double rate if the above-mentioned procedures are undertaken in places other than the customs borders of the Republic of Armenia.

Customs payment is also charged for provision of document forms by customs officers, for customs convoy of goods within territory of RA, as well as for storage of goods and inspection of means of transportation by customs authorities.

### **Collection of Value Added Tax for Imported Goods**

Import of goods under «import for free trade» customs regime is subject to taxation with value added tax. The importer shall pay VAT for the imported goods at the customs border of the Republic of Armenia. VAT of the imported goods is collected based on the total estimate of customs value, customs duty and excise tax. Customs value is the amount paid for purchase of goods and their transportation (except for indirect taxes that were paid in foreign countries before crossing the customs border of the Republic of Armenia).

VAT for imported goods shall be paid within 10 days from the date of import.

VAT for imported goods is calculated and collected by customs authorities, except for the cases when the customs rate for imported goods is set at 0%. Such goods are listed separately in the law and are exempt from excise tax. The list of these goods are set by a separate law.

## USEFUL ADDRESSES, PHONE NUMBER, LINKS

### **Official and government sites**

Government of Republic of Armenia: [www.gov.am](http://www.gov.am)  
Web Site for Parliament of Armenia: [www.parliament.am](http://www.parliament.am)  
President of Republic of Armenia - Robert Kocharyan: [www.president.am](http://www.president.am)  
Ministry of Trade and Economic Development – [www.minted.am](http://www.minted.am)  
Ministry for Foreign Affairs of the Republic of Armenia: [www.armeniaforeignministry.com](http://www.armeniaforeignministry.com)  
Official Site of Constitutional Court of the Republic of Armenia: [www.concourt.am](http://www.concourt.am)  
Official site of Ministry of Privatization of Republic of Armenia: [www.privatization.am](http://www.privatization.am)  
Central Bank of Armenia: [www.cba.am](http://www.cba.am)  
National Statistical Service of Armenia [www.armstat.am](http://www.armstat.am)  
State Tax Service <http://www.taxservice.am>  
State Committee of the Real Estate Cadastre <http://www.cadastre.am>

Armenia-Diaspora Official Site [www.armeniadiaspora.com](http://www.armeniadiaspora.com)  
Pan-Armenian Network <http://www.panarmenian.net/eng/>

### **Education/Science**

Armenian National Science and Education Fund [www.ansef.org](http://www.ansef.org)  
State Engineering University of Armenia [www.seua.am](http://www.seua.am)  
National Academy of Science of Armenia <http://www.sci.am/>  
American University of Armenia [www.aua.am](http://www.aua.am)  
Institute of Chemical Physics <http://inf.sci.am/about/research/chph/>  
National Foundation of Science and Advanced Technologies <http://www.nfsat.am/>  
Mashtots Institute of Ancient Manuscripts [www.matenadaran.am](http://www.matenadaran.am)  
Yerevan Physics Institute <http://www.yerphi.am/>  
Yerevan State Medical University <http://www.ysmu.am/>  
Yerevan State University <http://www.yasu.am/>

### **News, media**

ARKA News Agency <http://www.arka.am/>  
ArmenPress <http://www.armenpress.am/>  
Armenian Independent News Agency <http://www.arminfo.am/>  
Internews <http://www.internews.am/>  
Media Information Center <http://media.am/>  
MediaMax News Agency <http://www.webnet.am/directory/media/mediamax/eng.htm>  
NoyanTapan News Agency <http://www.noyan-tapan.am/eng/>  
Aragil News Digest of Armenian Press <http://www.aragil.am/>  
Armenia TV Company <http://www.armeniatv.am/>

### **Associations and development agencies**

Armenian Development Agency [www.ossada.am](http://www.ossada.am)  
Armenian Jewelers Association <http://www.aja.am/>  
Armenian Sociological Association <http://www.asa.am/>  
Union of Information Technology Enterprises [www.uite.am](http://www.uite.am)  
Armenian High Tech Council of America, Inc. (ArmenTech) <http://www.armentech.org/>  
Information Technologies Development Support Council [www.itdsc.am](http://www.itdsc.am)  
<http://www.eurasianet.org/resource/armenia/index.shtml>  
Business Support center <http://www.bsc.am/>

Business Information Services for Newly Independent States  
<http://www.bisnis.doc.gov/bisnis/country/armenia.cfm>

**Business and Info Portals - all about Armenia**

Armenia Gateway [www.gataway.am](http://www.gataway.am)

Armenian Business and Trade <http://www.armport.com/>

Spyur Yellow Pages [www.spyur.am](http://www.spyur.am)

<http://www.haias.net/>

[www.armenians.com](http://www.armenians.com)

<http://www.encyclopedia.com/searchpool.asp?target=@DOCTITLE%20Armenia>

<http://www.armeniaguide.com/>

<http://www.armenian.com/>

<http://www.hyeetch.nareg.com.au>

<http://armenianlinks.com>

## ENTERPRISE INCUBATOR FOUNDATION PROFILE

### *Business development and incubation agency supporting technology companies in Armenia*

**EIF Mission** is to foster economic growth of Armenia and its technology sector via targeted assistance to the Armenian Information and High Technology enterprises and stimulation of entrepreneurial activity and start-up formation in the country.

**EIF Objectives** are to promote Armenian enterprises and increasing their competitiveness in the global marketplac, improve access of local firms to knowledge and information on best practices and experience, build linkages with business and research communities in key technology markets, create new channels for attracting foreign direct investment to Armenia.

#### *EIF Services*

Enterprise Incubator provides a comprehensive package of services via its two major components:

**Business Services** focuses on assisting Armenian technology firms in a variety of areas including business development, marketing and promotion, management, accounting and finance, legal, and other areas vital to the success of a company. Business Services unit helps existing companies in growing their businesses within Armenia and internationally, facilitates the development of start-ups, and assists local entrepreneurs in building their ideas into successful businesses. As part of our assistance, we help companies to improve professional and business skills of the employees and managers via provision of short-term advanced trainings and seminars and creation of learning partnerships within the industry and the universities.

**Facility Services** component provides high-end facilities to existing technology companies and start-ups. Options included in the base package are high-quality office space, shared meeting and conference rooms, training lab, shared resource center with access to literature and other information resources, high-speed Internet connection, receptionist and security, cafeteria, cleaning and utilities, parking, and 24/7 access to the building. Our facilities are located at the premises of Russian-Armenian University.

To learn more about our services, please visit our website at [www.eif-it.com](http://www.eif-it.com)

#### Our Contacts

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<http://www.eif-it.com>

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**The material contained in this Guide was compiled as of December 1, 2005, and, unless otherwise indicated, is based on information available at that time.**