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This Guide has been prepared jointly by HSBC Bank Armenia cjc and Grant Thornton for the purposes of providing a high-level general overview of the business environment in Armenia for the information of businesses who may be interested in transacting or investing in Armenia. Any transaction or investment in Armenia, however, should only be undertaken based on professional advice specific to such transaction or investment.
Introduction

This guide to doing business in Armenia will provide foreign investors with an introduction to the main laws, regulations and other unique factors that might affect the conduct of business in Armenia.

Before 1991, Armenia operated under the Soviet central planning system, during that time it developed a large and modern industrial sector. After gaining independence in 1991, Armenia adopted a policy of liberal market economics and initiated a privatisation programme. The transition to a more dynamic and market-oriented economy has been possible due to the openness to global commerce and various regulatory reforms designed to incentivise trading activity. The country is making further efforts to strengthen the independence of the judiciary system and eradicate corruption.

Despite strong growth in the first half of 2015, Armenia's economy decelerated in the second half among a regional slowdown, caused by Russia's economic turbulence. Full year GDP growth was 2.1 per cent for 2015, and is forecast to be 2.6 per cent and 2.7 per cent for 2016 and 2017, respectively. Although there has been growing political instability, Armenia rates significantly higher than the world and regional averages in terms of Investment Freedom according to the Index of Economic Freedom, ranking 54th in 2016.

Armenia joined the WTO in 2003, and despite efforts to improve trade relations, the country still maintains a severe trade imbalance which is offset by international aid. On 2 January 2015 Armenia joined the Eurasian Economic Union which presents a number of opportunities for foreign investors.

The Armenian Government has implemented a programme of reforms to restructure the banking and financial services sector, liberalise trade and attract foreign investment.

The main sectors of the economy undergoing rapid growth include mining, energy, including renewable energy, construction, IT, food processing and beverages, jewellery and diamond processing, tourism and financial services.

Armenia offers a number of competitive advantages for foreign investors which include:

- An inexpensive but highly skilled labour force
- Liberal banking regulations
- Favourable investment legislation
- Free economic zones (FEZ)

FEZs provide a favourable tax and customs environment for innovative export-oriented businesses. IT, agriculture and gem finishing are three of the key FEZ target sectors. Indeed, the country's growing IT sector includes internationally renowned companies.

With over 90 per cent of remittances, Russia remains one of Armenia's largest trading partners. Other important business partners are EU Member States (mainly, Germany), Iran, China, Canada and the US. Armenia's main exports are mineral products, cut diamonds, food and beverages and textiles. The principal imports are natural gas, petroleum, foodstuffs, chemical goods, diamonds, machinery and equipment.

The country's highly educated workforce is one of its biggest advantages; the literacy rate is over 99 per cent.

Generally, the Government encourages foreign investments and investing in Armenia does not require any preliminary authorisation. The regulations concerning foreign investment stipulate that foreign investments cannot be treated in a less favourable manner than domestic investments; moreover, foreign investors are awarded additional privileges. In recent years the Government has implemented various reforms to increase the ease of doing business in the country: the minimum capital requirement for creating a business was eliminated, licensing requirements were reduced and the bankruptcy procedure was modernised.

While this guide makes reference to some of the most common issues investors might face, it must be noted that certain industries, such as the financial services sector, are subject to special regulation and therefore companies wishing to invest in this area should seek legal advice.

The information in this publication is current at January 2016.
## Country profile

<table>
<thead>
<tr>
<th>Capital City</th>
<th>Yerevan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>29,800 sq. km</td>
</tr>
<tr>
<td>Population</td>
<td>3 million</td>
</tr>
<tr>
<td>Language</td>
<td>Armenian</td>
</tr>
<tr>
<td>Currency</td>
<td>Armenian Dram (AMD)</td>
</tr>
<tr>
<td>International dialling code</td>
<td>+374</td>
</tr>
<tr>
<td><strong>National Holidays 2016</strong></td>
<td></td>
</tr>
<tr>
<td>1-2 January – New Year</td>
<td></td>
</tr>
<tr>
<td>3-5 January – Christmas Eve</td>
<td></td>
</tr>
<tr>
<td>6 January – Christmas Day</td>
<td></td>
</tr>
<tr>
<td>7 January – All Soul’s Day</td>
<td></td>
</tr>
<tr>
<td>28 January – Army Day</td>
<td></td>
</tr>
<tr>
<td>8 March – Women’s Day</td>
<td></td>
</tr>
<tr>
<td>24 April – Commemoration Day of the Armenian Genocide Victims</td>
<td></td>
</tr>
<tr>
<td>1 May – Labour Day</td>
<td></td>
</tr>
<tr>
<td>9 May – Victory and Peace Day</td>
<td></td>
</tr>
<tr>
<td>28 May – The first Armenian Republic Day</td>
<td></td>
</tr>
<tr>
<td>5 July – Constitution Day</td>
<td></td>
</tr>
<tr>
<td>21 September – Independence Day</td>
<td></td>
</tr>
<tr>
<td>31 December – New Year’s Eve</td>
<td></td>
</tr>
<tr>
<td><strong>Business and Banking hours</strong></td>
<td>09:00 – 18:00</td>
</tr>
<tr>
<td><strong>Stock exchanges</strong></td>
<td>NASDAQ OMX Armenia</td>
</tr>
<tr>
<td><strong>Political structure</strong></td>
<td>Semi-presidential</td>
</tr>
<tr>
<td><strong>Doing Business rank 2016</strong></td>
<td>35</td>
</tr>
</tbody>
</table>

## Ease of Doing Business

<table>
<thead>
<tr>
<th>Topics</th>
<th>2016 rank</th>
<th>2015 rank</th>
<th>Change in rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business</td>
<td>5</td>
<td>3</td>
<td>-2</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>62</td>
<td>72</td>
<td>10</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>99</td>
<td>96</td>
<td>-3</td>
</tr>
<tr>
<td>Registering property</td>
<td>14</td>
<td>14</td>
<td>No change</td>
</tr>
<tr>
<td>Financing</td>
<td>42</td>
<td>36</td>
<td>-6</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>49</td>
<td>46</td>
<td>-3</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>41</td>
<td>41</td>
<td>No change</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>29</td>
<td>58</td>
<td>29</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>28</td>
<td>36</td>
<td>8</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>71</td>
<td>69</td>
<td>-2</td>
</tr>
</tbody>
</table>

*Source: World Bank Group (Doing Business)*
Political and legal system
The current system of government of Armenia is semi-presidential. However, the current system has been replaced by the parliamentary system, in line with amendments to the Constitution which were approved in the referendum held in 2015. Nevertheless, the current state bodies will preserve their authorities till the expiry of their mandates, ie considerable parts of the amendments have not yet entered into force.

The current President of Armenia is Serzh Sargsyan who was elected for a five year term through a general and direct election in February 2013.

The legislative power is exercised by the National Assembly, which is comprised of 131 members of parliament (deputies) who are elected once every five years in general and direct elections. Deputies represent various political parties.

The executive power is held by the Government and is comprised of the Prime Minister and the ministers. The Prime Minister is appointed by the President, based on the confidence of a majority within the National Assembly. The President then appoints the ministers that will form the Government taking into account the Prime Minister’s suggestions.

The judicial power is exercised by the three-level court system and by the Constitutional Court (only for matters of constitutional justice). The court system in Armenia consists of the courts of first instance (courts of general instance and the administrative court), courts of appeal and the court of cassation. Courts of general instance have jurisdiction over all civil and criminal cases while the administrative court only covers administrative cases. Decisions of the first instance courts may be appealed to the courts of appeal, and from there to the court of cassation. If all judicial remedies are exhausted and a final court act is available, it is possible to file an application to the constitutional court challenging the constitutionality of a legal provision applied in the judgement or sentence.

Armenia has a civil law system and as such all laws are codified. The Armenian legal system has comprehensive, continuously updated legal codes that specify all matters capable of being brought before a court as well as the applicable procedure and the appropriate punishment for each offence. Case law is not yet well developed in Armenia, though the precedential decisions of the court of cassation are binding for the courts of appeal and the courts of first instance.

Data protection
According to Armenian legislation, personal data is defined as any data regarding the person that allows or may allow the direct or indirect identification of the person. Personal data must be collected and processed legally. Personal data may only be collected for clearly defined and declared legal purposes and shall not be used for other purposes, except as defined by law. Collection and processing of data that are not necessary for the achievement of the purpose of processing, is prohibited.

Processing personal data is considered legal in any of the following circumstances:

- The personal data is processed in compliance with the law’s requirements and there is the consent of the respective person, save for the cases specified by the law
- The data being processed is obtained from publicly available sources

Personal data possessed by the data processor is considered to be confidential information except in specific cases stipulated by law.

The processor is obliged to undertake corresponding measures for the protection of personal data from sudden losses, illegal access to databases and illegal use of data.

There are certain sanctions (including administrative and criminal) envisaged by the law for the violation of data protection rules. There is also a newly established public body responsible for exercising control over the data protection field.

Exchange controls
Exchange control issues are regulated by the Armenian Law “On Currency Regulation and Currency Control”. According to the abovementioned law, any transactions between residents, money quotations for sale of goods (inventory), rendering services and labour remuneration and investments in charter capital of business entities shall be made in the Armenian currency.

Residents and non-residents have a right to purchase/sell foreign currency without limitations on immediate or inferred payment terms, assuming a right or an obligation to repurchase or convert to other currencies at a certain price in a certain period or on any other terms. Foreign currency purchase/sale transactions are performed.
There are no conversion restrictions between Armenian and foreign currencies, and foreign currency accounts may be maintained in Armenian banks.

Money laundering regulation
Money laundering is regulated by the Armenian Law “On Combating Money Laundering and Terrorism Financing”. The authorised public body in the sphere of money laundering is the Central Bank of Armenia.

Reporting entities shall file a report to the authorised body on suspicious transactions, business relationships and on transactions subject to compulsory reporting.

Reporting entities are:

- Banks
- Credit organisations
- Persons engaged in dealer-broker foreign currency trading, foreign currency trading, licensed persons providing cash (money) transfers
- Persons rendering investment services in accordance with the Armenian Law “On Securities Market”, except corporate investment funds’ managers with respect to activities of investment funds
- Central depository for regulated market securities in accordance with the Armenian Law “On Securities Market”
- Insurance (including reinsurance) companies and persons/entities carrying out insurance (including reinsurance) intermediary activities
-Pawnshops
-Real estate agents
-Public notaries
-Attorneys, as well as sole entrepreneurs and legal entities providing legal services
-Sole entrepreneur accountants and legal entities providing accounting services
-Auditors and auditing firms
-Dealers in precious metals
-Dealers in precious stones
-Dealers in artworks
-Organisers of auctions
-Persons and casinos organising prize games and lotteries
-Trust and legal entity registration service providers
-Credit bureaux
-The authorised body responsible for maintaining the unified state cadastre of real estate
-The state body performing registration of legal entities

Non-compliance with the requirements of the law may result in sanctions in the form of fines and other sanctions.

Intellectual Property Rights
In Armenia, Intellectual Property Rights issues are regulated by the Civil Code of Armenia and laws regulating specific objects of Intellectual Property Rights. Armenia has been a member of the World Intellectual Property Organisation (WIPO) since 1993 and is signatory to WIPO-Administered Treaties, as well as numerous IP-related multilateral, regional and bilateral treaties.
COPYRIGHT

Copyright can protect: works of scholarship, literature and art that are the result of creative activity regardless of the use and merits of the work and also the means of its expression. Copyright extends both to published and non-published works. Copyright does not protect ideas, concepts, principles, systems, proposed solutions and discoveries of objectively existing phenomena.

**Protection granted**

Copyright is an automatic right; therefore, it is not necessary to apply for it.

The author’s rights are classified into economic rights (the right of reproduction, translation broadcast etc) and moral rights (the right of authorship, the right to the authors’ name, the right to integrity of the work etc).

The copyright and its related rights are regulated by chapter 63 of the Civil Code of Armenia and the Armenian Law “On Copyright and Related Rights”.

**Infringements**

Any infringement thereof may entail civil and/or criminal action. Infringements include the following:

- illegal use of a subject matter of copyright or related rights
- Misappropriation of authorship
- Recording on any carrier, extension and/or realisation of the subject matter of the copyright without the consent of the owner of the economic right

**Duration**

The length of protection is indefinite for the authors’ moral rights. The authors’ economic rights are protected throughout their lifetime and for 70 years after their death.

PATENTS

Patents protect inventions and utility models. Protection is provided from the moment of registration. Patents are regulated by the provisions of chapter 65 of the Civil Code of Armenia and the Armenian law “On Inventions, Utility Models and Industrial Designs”.

**Protection granted**

The patent holder has the exclusive right to use the protected invention or utility model at his discretion and the right to give a name to the invention or utility model.

The right of authorship and other moral rights to an invention or utility model arise from the time of arising of the rights based on the respective patent.

**Infringements**

Infringing a patent means manufacturing, using, selling or importing patented products or processes without the patent holder’s permission.

Using the invention or utility model without the patent holder’s permission is not considered an infringement, when it is used:

- For personal needs, without the purpose of getting profit
- As an object of scientific experience or scientific study
- For one-time preparation of medicine in pharmacies by the doctors’ prescription
- On the transport means (vehicles), which belong to any other state and accidentally pass through or temporarily stay in Armenia, in case the use of the relevant patent object is conditioned with the needs of the given transport means
- For tests, studies and trials of medical (including phytosanitary) products – during the last two years of the validity of the patent

**Duration**

Patents for inventions are valid for 20 years from the filing date.

Patents for utility models are valid for 10 years from the filing date.
# TRADE MARKS

A trademark (or service mark) is a registered verbal, pictorial, special, or other designation serving to distinguish the goods or services of one person from the same kind of goods and services of another person. Legal protection of a trademark is ensured on the basis of and provided upon its registration. The right to a trademark is confirmed by a certificate.

<table>
<thead>
<tr>
<th>Protection granted</th>
<th>A trademark registered by the Intellectual Property Agency or by an international organisation by virtue of an international treaty grants legal protection in Armenia. A trademark holder has the exclusive right to use and dispose the trademark.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infringements</td>
<td>The following can be considered as infringements of a trademark:</td>
</tr>
<tr>
<td></td>
<td>• Affixing the sign on the goods or on the packaging thereof, as well as, in case of a three-dimensional trademark, its use as packaging of such goods</td>
</tr>
<tr>
<td></td>
<td>• Offering the goods, their sale or storage for these purposes, or supplying or offering services under that sign</td>
</tr>
<tr>
<td></td>
<td>• Importing or exporting goods under that sign</td>
</tr>
<tr>
<td></td>
<td>• Using the sign on documents and in advertising</td>
</tr>
<tr>
<td></td>
<td>• Using the sign on the Internet or on other global computer telecommunication networks, in particular by any modes of addressing, including Internet domains</td>
</tr>
<tr>
<td></td>
<td>• Reproducing, storing or selling the sign for the above mentioned purposes</td>
</tr>
<tr>
<td>Duration</td>
<td>10 years from the filing date with the right to extension.</td>
</tr>
</tbody>
</table>

# DESIGNS

Any solution defining the outward appearance of an article, which is novel and original, shall enjoy protection as an industrial design. Within the meaning of the Armenian Law “On Inventions, Utility Models and Industrial Designs”, industrial design means the appearance of the whole or a part of a product resulting from the features of, in particular, the contours, colours, shapes, texture as well as materials of the product itself and (or) its ornamentation.

<table>
<thead>
<tr>
<th>Protection granted</th>
<th>Protection is given to an industrial design upon its registration.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The registration of an industrial design shall confer on its owner the exclusive right to use it and to prevent third parties from using it without his consent.</td>
</tr>
<tr>
<td></td>
<td>Within the meaning of the abovementioned law the aforementioned use shall cover, in particular, the making, offering for sale, putting on the market, importing, or using of a product to which the design may refer to, as well as stocking such a product for those purposes.</td>
</tr>
<tr>
<td></td>
<td>An industrial design may not be registered in the order established by the abovementioned law and may be eligible for copyright protection as from the date on which the design was created or fixed in any form as a copyright subject matter.</td>
</tr>
<tr>
<td>Infringements</td>
<td>A design right is infringed by an unauthorised person making an article exactly or substantially similar to the protected design or by making a design document for the purpose of making unauthorised copies.</td>
</tr>
<tr>
<td>Duration</td>
<td>Industrial designs are valid for five years from the filing date, with the right to extension.</td>
</tr>
</tbody>
</table>
Conducting business in Armenia

Business entities
Commercial legal entities may be established in the form of:

- Limited liability companies
- Joint stock companies
- Supplementary liability companies
- General partnerships
- Limited partnerships
- Commercial cooperatives

The governing document of a legal entity is its charter. The charter determines the size of the entity’s statutory/charter capital, the composition and competencies of the governing bodies, the rules for decision-making, the rights and obligations of the participants/shareholders/partners, the rules for exit and the transfer of shares of a participant/shareholder/partner to another person.

The most frequently used types of legal entity are:

- Limited liability company
- Joint stock company

Limited liability company
The participants of a limited liability company are not liable for the obligations of the company and therefore are only liable up to the value of their own capital contribution. A limited liability company can have a maximum of 49 shareholders.

The capital is determined by the company’s charter and divided into shares.

Formation
A limited liability company may be founded by a physical or a legal entity. It should be noted that a limited liability company having one founder/participant may not be the sole founder/shareholder of another business entity.

Business entities, including subdivisions, are registered with a unified register kept by the State Register Agency of Legal Entities. Upon registration, the entity will be deemed automatically recorded with the tax body and will be awarded a taxpayer identification number.

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

The creation of a business entity consists of two stages:

- Elaboration and collection of documents envisaged by the law
- Submission of documents to the State Register Agency of Legal Entities required for state registration

The registration of a business entity is free of charge. For registration of a business entity, the following documents should be submitted to the registration authority:

- The application of the founder(s) or the head of the executive body or the authorised person of the founder(s) of the business entity
- The decision on the creation of the business entity or the minutes of the constituent assembly of the business entity (if the latter is founded by more than one person (if one of the founders is another legal entity, the decision of the authorised body of the latter should be also submitted))
- The copies of the charter of the business entity approved by the founder or constituent assembly (at least two copies are necessary, for each additional copy a duty of AMD2,000 shall be paid)
- The passport details and the social security number or the social services number (or the number of attestation on absence thereof) of the head of the executive body (a copy of his/her passport, and in the case of a foreigner, a translated and certified copy of the passport), as well as the e-mail address of the latter
- Statement about actual beneficiaries

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

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

These documents should contain the following information on:

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

When the founder or one of the founders is a foreign physical person, the notarised translation of his/her passport should be submitted together with the generally required documents.

The registration procedure can be carried out electronically.
Capital requirement
There is no minimum capital requirement for a limited liability company, except for cases when the law envisages minimum capital requirements for certain types of activity. Contributions to the charter capital may be in the form of money, securities, other property or rights estimable in money. In case contributions consist of non-monetary assets and the nominal value of the shares for which the contributions are made does not exceed AMD500,000, they should be estimated by the meeting of the founders/participants. Otherwise, the contributions in the form of non-monetary assets should be estimated by an independent appraiser.

The contributions should be made entirely within the term (no longer than one year upon the registration of the company) agreed by the founding agreement.

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

Management structure
A limited liability company should have at least the following governing bodies:

- The general meeting of the participants (supreme governing body) consisting of the participants of the limited liability company, each of which has votes proportionally to its interest in the company charter capital
- The head of executive body responsible for managing the day-to-day activities of the limited liability company and representing the entity

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

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

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

Joint stock company
A joint stock company is a legal entity, the charter capital of which is distributed into a certain number of shares. The liability of shareholders in a joint stock company is limited to the value of their capital contribution. There are two types of joint stock companies: open type and closed type.

An open joint stock company may issue shares and sell them to the public without restrictions. Every shareholder has the right to sell shares without consent of the other shareholders.

In closed joint stock companies, shares are distributed only among its shareholders (including founders) or pre-decided persons, and the number of shareholders is restrained to a maximum of 49 shareholders. Moreover, existing shareholders in a closed joint stock company also have pre-emptive purchase rights for shares offered for sale by the other shareholders.

Formation
Formation is the same for all business entities in Armenia – see limited liability company.

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

Unlike the limited liability companies, the shares register of a joint stock company is kept by a specialised register keeping organisation.
Moreover, a joint stock company may issue and allocate shares granting different rights to their owners. Particularly, privileged shares may be issued, the total nominal value of which may not exceed 25 per cent of the charter capital of the joint stock company. In general, the holders of privileged shares do not have voting rights during the general meeting of the shareholders. Nevertheless, claims of privileged shareholders have priority over those of ordinary shareholders.

Management structure
The governing bodies of a joint stock company are as follows:

- The general meeting of the shareholders (supreme governing body) comprising the shareholders of the joint stock company, each of whom has votes proportionally to its interest in the company capital, except privileged shareholders, who may participate in the general meeting in cases defined by the law and the company charter.
- The executive body, either a CEO (director, general director), or a CEO and a collegial executive body (executive board, management board), responsible for managing the day-to-day activities of the joint stock company.
- The supervisor or the oversight commission responsible for exercising control over the financial activities of the joint stock company.

In case the number of shareholders of a joint stock company exceeds 50, a board consisting of at least three members should also be established. Persons who are neither shareholders of the joint stock company nor their representatives may also be elected as members of the board, unless otherwise specified by the company’s charter.

Branch and representative office
Foreign companies wanting to operate in Armenia can register a subdivision (either a branch, or a representative office). It should be noted that these subdivisions lack any separate legal capacity and act only in accordance with the powers delegated by their head office. The sole difference between a representative office and a branch is that the former is only entitled to represent and defend the interests of its founder. However, a branch, in addition to those functions, can perform the same activities as its head office.

Unlike the registration of a legal entity, for the registration of a subdivision there is a state duty of AMD12,000. For registration of a subdivision, the following documents should be submitted to the registration authority:

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

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

Sole proprietorship
Foreign investors can also do business if registered as sole proprietors. In case of a sole proprietorship no business entity is created, however, the rules regulating the activities of business entities are applicable to the former, unless otherwise specified by the law. The main characteristic is that the sole proprietor is fully liable to the business debts and obligations with his/her personal assets.
Taxes in Armenia are regulated by a number of separate legal acts (laws, decrees, instructions) and there is no unified and codified legal act or tax code. Therefore, it is necessary for any business to fully investigate all relevant fiscal legal acts in order to ensure full compliance with tax legislation.

The tax year in Armenia is the calendar year. Presently, state taxes include corporate income tax, income tax, excise tax and VAT, as well as other taxes/payments as set forth by the law which are applicable as substitute for the abovementioned state taxes (turnover tax, fixed payments and patent fees). Local taxes include property tax, land tax (the application of which is compulsory in each community) and tax on hotels. It is worth noting that the respective law on tax on hotels, which has not yet been adopted, will only specify the highest and lowest rates of the mentioned tax. The applicable rate of this local tax will be established by the Council of each community on the suggestion of the head of the community.

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

Corporate Income Tax

Scope
Corporate income tax applies to both resident and non-resident entities. The definition of residents refers to organisations and investment funds established in Armenia. Non-residents are the organisations created outside of Armenia, including separate subdivisions of foreign legal entities such as branch offices or representative offices registered in Armenia.

Taxable income
Resident entities are taxed on their worldwide income, while non-residents are taxed only on income that is from Armenian sources. Income earned through a permanent establishment in Armenia is considered taxable. A permanent establishment is defined as a fixed place of business that is recognised by the tax authorities and used wholly or partially for carrying out business.

Rates
Corporate income is taxed at a flat rate of 20 per cent. For investment funds a tax rate of 0.01 per cent of net assets is levied as a corporate income tax.

Capital gains
There is no separate capital gains tax imposed in Armenia. Capital gains are included in the taxable income of residents and taxed at the standard corporate income tax rate. Non-residents’ capital gains are taxed at source at a rate of 10 per cent.

Losses
Entities may carry forward their losses to the next five years. Losses cannot be carried back.

Deductions
Taxpayers may deduct any documented expenses necessary for generating income subject to certain exceptions. Non-deductible expenses include:

- Advertising, staff training, marketing expenses that exceed the limits specified by the Government. It should be noted that such limits are set only for the mentioned operations carried outside of Armenia (no limitations for advertising, staff trainings, and marketing expenses incurred in Armenia)
- Fines, penalties and other sanctions paid to the state budget
- Representative expenses, expenses on special food/uniforms exceeding the limits specified by the Government
- Interest paid on loans and other borrowings at a rate exceeding the double of the bank interest rate set by Central Bank of Armenia (only the exceeding amount is non-deductible)
- Other expenses envisaged in the law.

Dividend income
A dividend withholding tax is imposed on dividends paid from Armenian sources to non-resident legal entities at a rate of 10 per cent. No tax is imposed on dividends paid to Armenian resident entities.

Interest
An interest withholding tax of 10 per cent is charged on interest paid from Armenian sources to non-resident legal entities. Interest payments received by Armenian residents are included in the taxable income, and taxed at the standard corporate income tax rate.

Tax incentives
The Armenian fiscal legislation provides several tax incentives in respect of corporate income tax, such as:

- Business plan incentive
  Resident business entities may deduct from the amount...
of corporate income tax 100 per cent of salaries and equivalent payments paid to new employees hired during the respective year in accordance with the business plan approved by the Government decision. To be eligible for the incentive, businesses have to comply with the criteria specified by the Government.

This tax incentive shall be valid for the year of the commencement of the respective activities specified by the approved business plan, as well as for two consecutive years. In any case, the amount of deduction per year of application may not exceed 30 per cent of the corporate income tax calculated for the relevant year.

Free zone incentive
Resident and non-resident entities exercising entrepreneurial activities in a free economic zone established in Armenia may deduct 100 per cent of the corporate income tax accrued for the period of operation in the relevant free economic zone from the amount of corporate income tax of the relevant year.

State securities incentive
The interests received by a non-resident entity from the state bonds in foreign currency are exempted from corporate income tax. This is also applied towards any discount applied upon the maturity of the given bonds, as well as towards any other income received by a non-resident entity from alienation of the given bonds.

Administration
The tax year in Armenia is the calendar year. Both resident and non-resident entities carrying out business in Armenia should make advance payments of corporate income tax from the second year of activity. Armenian resident businesses make advance payments on a quarterly basis at a rate of 18.75 per cent of the corporate income tax of the previous year. This should be done by the 15th day of the last month of the quarter.

Non-resident entities (operating through permanent establishments) should make advance payments on a half-yearly basis, at a rate of 25 per cent of the corporate income tax for the previous year. This should be done by 1 July and 31 December each year.

If the sum of the advance payments exceeds the due tax, the difference may be refunded on request. Overpayments may also be counted against future liabilities.

Non-resident legal entities operating through permanent establishments are not liable for advance corporate income tax payments if their corporate income tax for the previous year was less than AMD2 million.

Late payments and other tax violations are awarded fines and penalties based on the value of the tax liability at the following rates:

<table>
<thead>
<tr>
<th>Violation</th>
<th>Fine/penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late payment</td>
<td>0.15 per cent of the tax amount due per each day of delay, up to a maximum of 365 days</td>
</tr>
<tr>
<td>Late submission of the tax return</td>
<td>Five per cent of tax amount due per each 15 days of delay, up to a maximum penalty of 100 per cent</td>
</tr>
<tr>
<td>Underreporting of taxable income</td>
<td>50 per cent of underreported amount for the first time</td>
</tr>
<tr>
<td>Over reporting losses</td>
<td>20 per cent over-reported loss</td>
</tr>
</tbody>
</table>
| Failure to keep accounts or violations of the established accounting procedures | 10 per cent of the amount of taxes underpaid as a result of failure to keep accounts or violations of the established accounting procedures.

Personal Income Tax (PIT)
Personal Income tax is regulated by the Armenian Law “On Income Tax”.

Both resident and non-resident individuals are liable to personal income tax.

Personal Income tax is levied on worldwide income of resident individuals, and only on incomes gained from Armenian sources in case of non-residents. An individual should be considered resident if:

- During any 12 month starting or ending in a tax year he/she has been residing in Armenia for a total duration of 183 days or more
- His/her centre of vital interests is in Armenia
- He/she is in the civil service of Armenia and is temporally working abroad

Taxable income
The following types of income are subject to income tax:

- Employment income (regardless of form of compensation)
- Self-employment income (gross individual income reduced by expenses)
- Investment/passive income

Rates
Generally, when a tax agent is due to pay income to employees, they are required to calculate and withhold
income tax at source. This is standard protocol, except for cases when the income is payable to a physical person registered as an entrepreneur in Armenia or to a public notary.

If income is paid through a tax agent, the following rates apply:

<table>
<thead>
<tr>
<th>Taxable income (AMD)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-120,000</td>
<td>24.4 per cent of taxable income</td>
</tr>
<tr>
<td>120,000-2,000,000</td>
<td>AMD29,280 plus 26 per cent of the amount exceeding AMD120,000</td>
</tr>
<tr>
<td>2,000,000+</td>
<td>AMD518,080 plus 36 per cent of the amount exceeding AMD2,000,000</td>
</tr>
</tbody>
</table>

Income not taxed through tax agents is calculated at the following rates:

<table>
<thead>
<tr>
<th>Taxable income (AMD)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1,440,000</td>
<td>24.4 per cent of taxable income</td>
</tr>
<tr>
<td>1,440,000+</td>
<td>AMD351,360 plus 26 per cent of the amount exceeding AMD1,440,000</td>
</tr>
</tbody>
</table>

Several means of income are taxed at non-standard specific rates, which are as follows:

- Insurance benefits received from insurance and income received from freight - five per cent (applicable for foreigners)
- Royalties, interests, lease payments – 10 per cent
- Capital gains – 10 per cent (applicable for foreigners)
- In case of carrying out a transaction without concluding any written agreement or without necessary indication of any data specified by the legislation, the personal income tax should be imposed at the rate of 11 per cent

Deductible income

The following incomes should be deducted from the gross income for the purpose of calculation of personal income tax:

- Dividends
- Contributions to the voluntary cumulative pension scheme (in the amount not exceeding five per cent of taxable income)
- Contributions made by the state in favour of the taxpayer to the cumulative pension scheme
- Property or cash inherited or received as a gift from physical persons
- Financial aid from the state within social projects
- Proceeds from the sale of a property to physical persons (unless the sale is concluded for entrepreneurial purposes)
- Scholarships and stipends paid by the state to students
- Insurance compensation
- Income derived from the sale of shares, treasury bonds and other state securities
- Compensation for damages in accordance with the Armenian legislation
- Lump sum payments arising from the death of an employee or his/her family member
- Monetary prizes from contests up to AMD10,000
- Insurance payments made by the employer in favour of an employee up to AMD10,000 per month
- Income from the sale of agricultural products

Administration

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

For income not taxed by a tax agent the reporting period is the calendar year. The taxpayer should present to the tax authority the relevant calculation of income tax for the previous year by 15 April of the following year by submitting an annual calculation exclusively in electronic format. Personal income tax, once the calculation has been presented, should be paid by 1 May of the year following the respective reporting period.

Other taxes

Value added tax

Value added tax (VAT) is a type of indirect tax, which is imposed on certain transactions and operations including:

- Supply of goods (including on a free-of-charge basis)
- Provision of services (including on a free-of-charge basis)
- Import of goods

The rate of VAT is determined at 20 per cent of the taxable turnover of goods and services. The amount of VAT within the amount of the total indemnity for the goods and services (including VAT at 20 per cent rate) shall be determined at the rate of 16.67 per cent. The exported goods and services are subject to VAT at the rate of zero per cent.
When a non-resident entity not registered in Armenia as an actor of entrepreneurial activity carries out transactions taxable with VAT in the territory of Armenia, the resident counterparty of the former shall act as a tax agent and bear VAT liability. The resident entity shall include the VAT amounts payable by non-resident entities in its own return and issue a tax invoice on behalf of the non-resident counterparty in order to offset such VAT amounts.

Armenia uses the input-output model. Those that are VAT-registered first deduct VAT paid on their inputs before accounting for output VAT. Currently, the fact of making payments for received goods and services is one of the mandatory conditions for deducting the input VAT. However, starting 1 January 2016 taxpayers who, in the past calendar year, received revenues from VAT taxable transactions in the total amount not exceeding AMD500 million may deduct the sums of input, regardless of the fact of payment. From 1 January 2017 the payment to suppliers will not be a mandatory condition for deducting VAT.

The reporting period for VAT payers is either a month or a quarter. VAT payers are required to submit VAT returns for each reporting period. The reporting period for VAT payers who in the past calendar year received revenues exceeding AMD100 million from VAT taxable transactions is one month. VAT returns should be filed and VAT amounts paid within 20 days after the expiry of the relevant reporting period.

For goods imported into Armenia, VAT shall be paid within 10 days after importing. An exception is applied to goods imported from EEU (Eurasian Economic Union), for which VAT should be paid by the 20th of the next month following the import.

The provision of services to the organiser or operator of a free economic zone by the taxpayers, as well as supply of goods within the territory of such zone is exempt from VAT.

**Excise tax**

The following goods shall be subject to excise tax: beer, grape wines and other wines, spirits (except cognac spirit), alcoholic drinks, cigars, cigarillos and cigarettes with tobacco or its substitutes, gasoline and diesel fuel, raw oil and oil materials, oil gas, pressurised gas (introduced in 2015 and effective from 1 May 2016) and other hydro-carbons (except natural gas not being considered as pressurised).

The taxable base of the excise tax is either the factory price/customs value of the above mentioned products or their quantity/volume expressed in physical units or otherwise.

It should be noted that some products taxable with excise tax are subject to labelling, the list of which is drawn up by the Government.

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

**Property tax**

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

The property tax is payable by any individual or organisation that owns property in Armenia. It should be noted that absence of formal registration of ownership right to buildings under construction or to unauthorised buildings/constructions may not serve as a basis for exemption from property tax.

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

The taxable base for buildings and constructions is their cadastral value and for motor vehicles, their engine power.

The reporting period in terms of property tax payable by individuals is the calendar year. The law specifies the principle of voluntariness for submission of property tax returns by individuals (deadline is 1 October of the reporting year). Local authorities are obliged to send notifications to individuals on the amount of their tax liabilities. The annual amount of the property tax shall be paid by individuals by 1 December of the reporting year.

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

Constructions of public or production use which are situated on the territory of a free economic zone and belong to the operators of a free economic zone or are being used by the latter are exempt from property tax.

The amount of property tax on motor vehicles used for more than
three years is reduced for each year following the third year by 10 per cent but no more than 50 per cent of the tax amount.

Land tax
Land owners and permanent users (both individuals and organisations) of the state-owned land are considered liable for land tax. In case of land lease the land tax shall be paid by the lessor. The amount of the land tax shall not depend on the results of the taxpayer’s economic activity and is defined as an annually paid fixed payment per unit of the land lot area.

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

The reporting period in terms of land tax payable by individuals is the calendar year. The local authorities are obliged to send notifications to individuals on the amount of their tax liabilities. The annual amount of the land tax shall be paid by individuals in two equal instalments: the first instalment should be paid by 15 November of the reporting period, and the second instalment by 15 April of the following year.

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

The following tax incentives are offered for land use:

- For newly planted and young vineyards and fruit gardens with areas equal to or larger than 0.1 hectare, no land tax is paid for such lands till complete fruitfulness of plantlets
- For lands used exclusively for scientific and educational purposes, as well as for the purposes of testing the sorts of agricultural and forest cultures, the land tax is reduced by 50 per cent
Labour

Labour relations in Armenia are governed by the Armenian Labour Code (the Labour Code), which became effective on 21 June 2005. The minimum wage is regulated by the Armenian Law “On Minimum Monthly Salary” and visa requirements for non-resident employees are regulated by the Armenian Law “On Foreign Nationals”.

Workers are eligible to work from the age of 16 (14 in some cases) and retire aged 63.

Employment contract

Employment relationships in Armenia are generally governed by an employment contract, which must be laid out in accordance with the Labour Code.

There are two possible types of contract: definite term and unlimited term. Generally, a definite term contract is only used in special circumstances where an unlimited term is not applicable because of the nature of the work.

Definite term employment contracts can be also used in the following instances:

- Seasonal work
- Temporary work
- Combined work
- Work limited by visa validity or duration
- Substitution of a worker being temporarily absent
- Elective offices
- Hiring a retiree

Minimum wage

In 2015, the minimum wage was set at AMD55,000.

Working time and leave

Regular working hours should be 40 hours a week (eight hours a day maximum). Overtime is possible within the limits of 48 hours a week and 12 hours a day. For overtime work employees are paid 50 per cent more than for the regular working hour. For work performed during night-time (10 pm – 6 am), 30 per cent additional compensation has to be paid.

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

The length of minimum annual paid leave is 20 working days if the working week is comprised of five working days, and 24 working days if the working week is comprised of six working days. The annual leave may be provided in parts at the request of the employee. In any case, one of the parts of the annual leave should last at least 10 or 12 working days depending on the length of the working week. During annual paid leave the employee is paid an average salary. The monetary compensation for unused annual leave shall be paid at the time of termination of the employment contract.

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

Employees taking care of a child under three (father, mother, grandparents or other members of the family) can be allocated leave.

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

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

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

**Healthcare and other benefits**

There are no legal provisions requiring health insurance for employees. The employer must provide safe conditions of work for employees and is responsible for the damage caused to the health and the life of the employee during the work time.

**Social security**

The new system of social payments has been in place since 1 July 2014. The social payments are to be transferred to the state budget as targeted payments which will be directly dependent on the size of the pension to be received by a person in the future. The new system is applicable for persons born after 1 January 1974. Moreover, according to the current regulation, a respective grace period (until 1 July 2017) has been established for private sector workers as of 1 July 2014 to join the cumulative/funded pension system. The targeted social payment should be paid at the rate of five per cent from employees’ gross salaries but it should not exceed AMD25,000 per month. However, this threshold is taken as a basis for maximum thresholds for the period up to 1 July 2020. Meanwhile, the State is obliged to pay another five per cent from its side not exceeding the amount of AMD25000. However, this threshold is taken as a basis for maximum thresholds for the period up to 1 July 2020.

**Dismissal**

The bases for termination of labour relations are as follows:

- Mutual consent of both parties
- Expiry of the term specified in the respective employment contract or individual act
- On the initiative of the employee
- On the initiative of the employer (for serious misconduct, loss of confidence towards the employee, in case of staff reduction due to economic reasons, etc)
- In case of conscription of the employee to compulsory military service
- In case of a court decision put in effect to call the employee to account as a result of which work continuation is deemed impossible
- In case the employee forfeited the rights to perform certain works in the manner established by the Armenian legislation
- If the employee is under 16 of age and either of the parents, or adoptive parent or tutor/guardian, or physician in charge of the health monitoring of the minor, or social inspector for labour protection requires termination of the employment contract
- In case of considerable changes in working conditions/working environment
- In case of death of the employer
- In case of the employee’s death
- In case of false information provided by the employee during
placement concerning his/her qualifications or state of health

- In case of concealment by the employee at a time of placement of the fact that he/she was forfeited the right to perform certain types of work

- Upon the results of the probation period foreseen by the consent of the employer and employee

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

Severance payments

Employers must pay a severance payment to the employee in the amount of his average monthly wage when terminating employment contracts for any of the following reasons:

- Liquidation of the organisation

- Reduction of the number of employees preconditioned by changes in the volume of production, economic and technological conditions and conditions of organisation of work

- Reinstating of the employee in previous job

If the employment contract is terminated when the employee is not suitable for the position held or job done or the employee has a long-term inability to work (more than 120 days (if continuous) or 140 days during the last 12 months) or when the employee has reached the retiring age or when considerable changes in working conditions/working environment have been introduced or when the employee is conscripted for compulsory military service, the amount of the severance pay is dependent on the employee’s length of service at the employer’s organisation:

- For the employees who have worked less than a year – the amount of 10 times their average daily wage

- For the employees who have worked from one to five years – the amount of 25 times their average daily wage

- For the employees who have worked from five to 10 years – the amount of 30 times their average daily wage

- For the employees who have worked from 10 to 15 years – the amount of 44 times their average daily wage

- For the employees who have worked over 15 years – the amount of 44 times their average daily wage

When the employment contract is terminated for other reasons (for the employee’s non-performance or incomplete performance of his duties, or in the case when the confidence towards the employee is lost, etc), no severance payment is paid to the employee.

Collective redundancies

In case of liquidation of the organisation or reduction of the number of the employees (10 per cent of the total staff but no less than 10 employees are to be dismissed within two months), the employer shall submit the information about the number of the employees to be dismissed to the State Employment Service and the representative of the employees. This must be filed no later than two months in advance.

Employment of resident and non-resident employees

Foreign individuals wishing to work in Armenia are required to obtain a visa and a work permit. However, a work permit is not required for:

- Individuals who have a permanent or special status of residence

- Spouses and relatives of those with permanent or special status of residence, of Armenian nationals or of legally staying expatriates having temporary status of residence (during the term of the given status), refugees

- Founders and members of executive bodies of commercial legal entities with foreign capital

- Individuals who are not required to have a work permit on the basis of respective international treaty, as well as experts visiting Armenia within the framework of such treaties

- Employees of foreign commercial organisations working in the representative office of the latter in Armenia, etc

No precise procedure for delivering work permits has been adopted yet by the competent authority. Thus, this requirement has no legal force.

Trade unions

The rights and interests of employees may be represented and protected by trade unions. Where an organisation has no trade union, the staff meeting may elect relevant representatives or a representative body. In case of absence of representatives the protection of the employees’ interests may be assumed by the respective sectorial or territorial trade union.

The competencies of trade unions are limited and they do not have enough power to fully protect the rights of employees. In case of violations of their rights, employees mostly act individually by judicial means.
Auditing

The accounting regime is regulated by the Armenian Law “On Accounting”. The regulation and implementation of auditing is governed by the Armenian Law “On Auditing”.

Accounting standards
In 2009, the Government initiated a full transition to IFRS, making its use mandatory for banks as of January 2009. From January 2010, IFRS reporting became mandatory for credit institutions, payment and settlement organisations, securities market issuers, investment companies, regulated market operators, the Central Depositary, insurance companies, reinsurance companies, and insurance brokers. IFRS became mandatory for other entities from January 2011.

Entities with receivable revenue for the previous calendar year not exceeding AMD100 million are allowed to apply special regulatory provisions for tax accounting defined by the Government, rather than applying IFRS. The Government published an up-to-date Armenian translation of IFRS in July 2013. The first complete translation was published in March 2010.

Accounting records
All companies incorporated in Armenia are obliged to maintain accounting records. The Law “On Accounting” stipulates that the accounting should be maintained in the Armenian currency – the dram (AMD).

All organisations should complete financial statements in the Armenian currency based on data of analytical and synthetic accounting.

The reporting year is the period between 1 January and 31 December. For newly established organisations, the first reporting year is the period between the day of their registration and 31 December of the same year. Annual financial statements for the reporting year are mandatory.

Filing and submission of statutory financial statements
The financial statements of an organisation must include:

- A statement of financial position (balance sheet)
- A statement of profit or loss and other comprehensive income
- A statement of changes in equity
- A statement of cash flows
- The notes to financial statements

If financial statements are subject to mandatory audit pursuant to the Armenian legislation, an auditor’s opinion must be attached to the financial statements.

Organisations shall present annual financial statements:

- To the founders, participants pursuant to the founding documents of the given entity or the Armenian legislation
- To the state bodies pursuant to the Armenian legislation

A number of enterprises such as open joint stock companies, banks, branches of foreign banks and organisations with annual revenue or carrying value of assets exceeding AMD1 billion, are obliged to publish their annual financial statements.

Financial statements may be published in the press, on the Internet or in the form of booklets.

Audit requirements
The Armenian Law “On Auditing” regulates the audit methodology and outlines requirements for audit firms; such firms should be licensed by the Ministry of Finance.

Audit is mandatory for the following entities:

- Open joint stock companies
- Banks and other financial institutions
- Stock exchange participants
- Foundations if the value of the latter’s assets exceeds AMD10 million
Foreign Direct Investment
The Armenian Government has a welcoming attitude to foreign investment, and does not require preliminary authorisation before making an investment.

Foreign investments are regulated by the Armenian Law “On Foreign Investments” adopted as of 31 July 1994 (hereinafter referred to under this section as “the Law”), which specifies the types and forms of foreign investments and guarantees and secures the protection of foreign investments. The Law also specifies additional privileges to foreign owned entities (only applicable if foreign investment in the charter capital is no less than 30 per cent at the time of establishment) and procedures for settlement of any disputes arising in connection with foreign investments.

The Law offers a number of protections for foreign investments, including protection from nationalisation and guaranteed compensation for loss or damage.

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

- Guaranteed equal legal footing with local investments
- Protection from nationalisation
- Guaranteed right to compensation for loss or damage sustained as a result of illegal actions of Armenian state bodies
- Guaranteed access to profit
- Guaranteed right to export property

In 2015, FDI inflows fell to AMD70.4 billion from AMD117.2 billion in 2014. The largest sources of foreign investment were Russia, Switzerland and Luxembourg. The largest share of foreign investment was in the mining industry.

Government incentives
The Armenian Government offers a number of incentives to both exporters and foreign investors. Exporters are exempted from export duty and offered a zero rate VAT on goods and services exported (in case of physical persons the latter could receive VAT refund in case of export of goods purchased in Armenia upon meeting certain requirements).

The Law allows for specific ad-hoc incentives to be negotiated on a case-by-case basis for investments that are perceived as of strategic importance for the economy.

Imports and exports
Armenia is a member of the WTO, and as such has relatively relaxed import restrictions. Nevertheless importers must pay duty on goods, and appropriate documentation must be provided, particularly when dealing with restricted goods.

In 2015, the National Assembly introduced unprecedented privileges to all those companies that have over AMD40 billion or AMD50 billion export volumes, decreasing profit tax from 20 per cent to five or two per cent, respectively, as well as meet certain additional requirements specified by the law.

It should be noted that starting from 2 January 2015, Armenia became a member of Eurasian Economic Union together with Russia, Belarus and Kazakhstan and thus created a common external customs border subject to regulations set forth by the relevant international treaties signed between the members of the said economic union. In August 2015 a new member, Kyrgyzstan, joined Eurasian Economic Union. Armenia’s accession to the Eurasian Economic Union will result in a gradual transition towards a unified tariff system with the other members of the union; the deadline for a full transition is 2022.

The Eurasian Economic Union has a population of 182 million people and the total GDP is expected to reach USD3 trillion next year. This scenario offers great opportunities for foreign investors. Moreover, this supranational organisation will enhance economic cooperation within the region. Thanks to its large population and natural resources, the Eurasian Economic Union is expected to become a powerful economic force.
Finance

Capital markets
Armenian capital market began in 1993. With the adoption of the Armenian Law on “Securities Market Regulation” in 2000 it became a regulated market. The Central Bank of Armenia is the sole regulator and supervising authority of the Armenian financial market. NASDAQ OMX Armenia is the sole regulated market operator in Armenia and the Central Depositary of Armenia is the sole operator of the clearing and settlement system of securities.

Banking system
Armenia’s banking system is currently moving towards compliance with the Basel III standards. As of the end of January 2016, the Armenian banking market included 21 commercial banks, with 535 branch offices in Armenia and Nagorno-Karabakh Republic.

Control over financial institutions, including banks, is exercised by the Central Bank of Armenia. In the summer of 2005, a bank deposit guarantee fund was created, which currently guarantees bank deposits for an amount of AMD104 million for deposits made in drams and AMD5 million for deposits made in foreign currency.

In December 2014, the Central Bank of Armenia decided to raise the minimum amount of commercial banks’ total capital to AMD30 billion from the current AMD5 billion. Commercial banks have until 1 January 2017 to comply with the new capital requirements. This measure is intended to promote mergers and acquisitions of banks in order to create a more competitive banking environment. Indeed, the measure was welcomed by a number of international organisations.

Commercial banks operate under the authority and supervision of the Central Bank of Armenia. Since 2006, the Central Bank of Armenia has also acted as regulator and supervisor of the Armenian financial market. The principal mission of the Central Bank of Armenia is to maintain price stability, and since 2006 it has exercised an inflation targeting strategy that influences domestic interest rates as an operational goal. Additionally, it addresses the forecasted level of inflation as an intermediate goal. The Central Bank of Armenia also monitors trends in the financial markets, evaluates risk and measures the impact of developments in the financial system.

Insurance industry
The insurance industry of Armenia is relatively small, although it saw considerable growth after the introduction of mandatory motor third party liability insurance in 2011. The volume of written premiums has grown considerably since 2009.

The insurance market in Armenia is regulated by the Central Bank of Armenia. In January 2016, there were nine insurance organisations and three insurance brokers under the regulation of the Central Bank of Armenia.

Investment management industry
The investment management industry in Armenia is relatively under-developed. Trading activity is low in the securities market. Around 90 per cent of assets are held through the banking sector, so investment volume is comparatively low.

Armenia’s investment climate has changed considerably in recent years, but recent developments, most notably a slowdown of trade with Russia (Armenia’s largest trading partner), have hampered growth.

In January 2016, there were eight investment companies operating in Armenia under the regulation of the Central Bank of Armenia.
Infrastructure

The overall quality and reliability of infrastructure is a critical factor for businesses across all sectors.

Armenia’s infrastructure is developing but is still in need of improvement. A large proportion of the country’s roads and railways were built during the Soviet era and have seen little significant overhaul since.

Armenia is ranked 107 in the world for infrastructure in the World Bank LPI index 2014 and 92 overall in the LPI index.

Telecommunications are increasingly a central factor in facilitating business; Armenia offers a reliable Internet service throughout the country. It is available via DSL, fibre optic, WiMAX, and other technologies. Mobile operators provide quality internet connections via 3G and 4G systems, which are available in all regions of the country. Armenia is connected with fibre optic cables through Iran and Georgia. Currently, the country has seven international portals: five in the North and two in the South, which provide a reliable connection.

The key features of Armenia’s transport infrastructure include:

- 7,744.6 kilometres of roads
- 725 kilometres of railways
- Two international airports

The current Government has an on-going strategy aimed at improving the road network in Armenia, which has prompted the construction of a new road to connect the northern and southern borders of the country (through Meghri, Kapan, Yerevan, and Bavra).

The geographical location of the country, particularly its lack of direct access to the sea, as well as relations with neighbouring countries and the political situation in the region have significant impacts on the cargo transportation sector. As a result of having closed borders with two neighbouring countries (Turkey and Azerbaijan), cargo transportation is mainly organised by land carriers using the northern and southern borders with Georgia and Iran. An estimated 85 per cent of the goods imported into Armenia by land carriers have to transit through Georgia, due to the large capacity of shipments to Georgian seaports. It is worth noting that ferry services connect Poti (Georgia) with other large ports in Bulgaria, Russia and Ukraine, which facilitates trade with European destinations. Road transportation remains the best means of cargo transportation both from the Armenian borders into the country and to Georgia or Iran.