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BUSINESS RELOCATION TO ARMENIA

Benefits of relocation of business to Armenia:

- Strategic geographical location and ease of travel to Europe and East Asia with direct flights to major destinations;
- Armenia has access to 1.5 billion market with 0% customs duties;
- Open-door policy towards foreign investments, providing for full property ownership;
- A stable and growing economy with competitive cost for operating business;
- Well-skilled and cost-efficient multilingual workforce;
- Armenia is one of the least tax-burden countries in the world offering flexible taxation scheme for small, medium and large- scale investments;
- The five-year grandfather clause, protecting foreign investors against investment-related legislation changes;
- Unimpeded access to any sector with no restriction for personnel recruitment, free and unlimited repatriation of profits, unlimited currency exchange on market rates, and guarantees against nationalization;
- Well developed international banking system.

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1 Legal forms of business

There are the following types of legal (business) trade entities widely practiced:

- Private entrepreneurship

- Limited Liability Company
- Joint-Stock Company.

Foreign citizens and entities may become shareholders/participants of Armenian legal entities without need to involve any local resident.

1. **Private entrepreneur** - is a natural person who has the right to implement activities, independently on his/her behalf and at his own risk, without forming a legal entity, the main purpose of which is to gain profit (income) from using property, selling goods, performing works or delivering services.

Individual entrepreneurs can be the citizens of the Republic of Armenia and foreign citizens with capability, as well as those persons without citizenship, whose right of being engaged in entrepreneurial activities is not limited by law.

Individual entrepreneur shall have property by the title, and shall be liable for his obligations with that property.

2. A Company founded by one or several persons with a Charter Capital divided into shares in amounts as determined by the company's charter shall be considered as a **Limited Liability Company**.

A Company is a commercial organization with the status of a legal person. Limited Liability Companies are the most widely used forms of legal entities.

A Company shall have a separate property in ownership and shall be liable for its obligations with this property.

The participants in a Company shall not be liable for the obligations of the Company and shall bear the risk of losses related with the activity of the Company within the value of their contributions.

The number of Company participants shall not exceed 49, otherwise the company shall be subject to reorganization into Joint Stock Company within one year.

3. **A joint-stock company**-is a business company, a commercial organization, the equity of which is split into a certain number of shares certifying the responsible right of shareholders in relation to the Company.

There may be two types of joint-stock companies: open joint-stock company and closed joint-stock company.

Joint-stock company is deemed an open company if its shareholders have the right to alienate their shares without the consent of the other shareholders. Joint-stock company of this type may have an open subscription for and sell shares under the conditions defined by laws and other legal acts. An open joint-stock company may also carry out a closed subscription for its shares. The number of shareholders in an open joint stock company is not limited.

Joint-stock companies shall be liable for their obligations with all the property they own.

2 Entry requirements (Visa/work permits)

Citizens of the EU member states, US and UAE, Australia, New Zealand, UK, Singapore, China, EAEU, Brazil, Georgia, Albania, Iran, Serbia, Qatar, Uruguay, Argentina,

Ukraine and some other countries citizens with all types of passports are unilaterally exempt from the requirement to obtain a visa to enter the Republic of Armenia. They can stay in the territory of the Republic of Armenia **up to 180 days per year**.

Citizens of other countries should obtain an entry visa prior to traveling to Armenia.

There are three types of residence for foreign citizens: temporary, permanent and special. The first one is being granted to all those holding a work permit, their family members, students, businessmen investing in Armenian economy, ethnical Armenians and some other categories. The temporary residence status is being granted for one year term with possible extension for the same term each time.

Permanent residence status can be applied for by those individuals legally resided in Armenia for at least three years prior to filing an application for obtaining permanent residence status. There is also a requirement of accommodation and means of subsistence in the Republic of Armenia. The status can be granted also to close relatives of the Armenian citizens as well as to a foreigner of Armenian origin or to a foreigner carrying out entrepreneurial activities in the Republic of Armenia. The status is being granted for the period of 5 years with possible extension for the same term each time.

The special residence status is being granted to foreigners of Armenian origin. Special residence status may also be granted to other foreigners who carry out economic or cultural activities in the Republic of Armenia.

Foreigners shall have the right to freely manage their working skills, choose the type of profession and activities, be engaged in economic activities not prohibited by the legislation of the Republic of Armenia, by complying with the restrictions prescribed by the legislation of the Republic of Armenia. For hiring a foreign employee, the employer should proceed with the formalities within the electronic platform managed by the migration authority.

There are some exceptions from holding a work permit for those with residence status as well as for investors and directors of foreign-owned organizations and some other categories of individuals.

Citizens of the EAEU member states who work in the Republic of Armenia, as well as their family members, are also exempted from the requirement to obtain any work permit for the whole period of their employment contract in accordance to the Treaty on the EAEU. At the same time, in order to verify the legality of the residence, the persons of this category can register on the Platform and receive a relevant certificate.

The certificate provided to the family members of EAEU citizens member states is issued for the term of the employment contract of the citizen of the EAEU member state registered in the RA, if the contract is concluded for an indefinite period, the certificate is issued for a period of one year.

3 Tax rates and tax administration

In the Republic of Armenia two taxation regimes are applied: general and special regimes.

In the framework of general taxation, the companies pay Value added tax and Profit tax.

The special taxation regimes are Turnover tax regime and Micro entities regime.

There is a tax privilege stated by the tax legislation for the entities operating in the sphere of Information technologies. Those entities should be certified in accordance with the law provisions. Certain requirements should be met in order to receive the certificate. One of the

requirements is the quantity of employees which should not exceed 30 people. This privilege though, will be in force till 31st of December 2022.

3.1 Vat and profit tax

If the company's total turnover exceeds the threshold of 115mln AMD 20 % VAT should be applied to the sales value as well as 18% profit tax should be calculated on the Net annual profit of the company.

The reporting period for VAT is every month and the Profit tax should be calculated on an annual basis. Also, Corporate profit tax prepayments should be made on a quarterly basis at minimum of the 20% of previous year's profit tax or the 2% of total sales turnover of the previous quarter.

The payments made to the non-residents in form of revenue from services and passive revenues also should be taxes withholding profit tax. The rates depend on service type and country of residence.

3.2 Turnover tax

If the company's total turnover does not exceed the threshold of AMD 115 million it can operate in the regime of Turnover tax. 5% Turnover tax shall be applied to the total sales amount in case of IT services. The reporting period is every quarter.

3.3 Employee salary taxes

In case of VAT and Turnover tax regimes personal income tax should be paid for each employee. The flat rate for PIT is 21% calculated on the gross income of the employee (including salaries, vacation and severance payments, bonuses and other benefits). In 2023 it will be decreased to 20%.

The contributions to the Social Security fund are calculated on gross income of the employee at following rates:

- for gross income less than AMD 500,000: 4.5 %;
- for gross income exceeding AMD 500,000: 10% minus 27,500 AMD

The stamp duty is calculated on gross salary or salary equivalents of the employee at following rates:

- for gross income less than AMD100,000: AMD 1,500;
- for gross income from 100,001 to AMD 200,000: AMD 3,000;
- for gross income from 200,001 to AMD 500,000: AMD 5,500;
- for gross income from 500,001 to AMD 1,000,000: AMD 8,500;
- for gross income exceeding AMD 1,000,000: AMD 15,000

3.4 Micro entities' taxation

The companies can be considered subject of Micro entities' tax regime if the company's total annual turnover does not exceed 24mln AMD.

The companies that are considered Micro entities do not pay any taxes except the below taxes:

- PIT at amount of AMD5,000 monthly for each employee;
- taxes and custom payments for the import of goods;
- social security fund contributions and Stamp fees at regular rates.

3.5 Tax privileges for the certified companies in the sphere of Information technology

The certified companies are exempt from Profit tax. The Personal Income tax rate is 10% for each employee. The rest of the taxes (VAT, social security payment, stamp fee) remain at regular rates.

4 Currency regulation

The official currency of the Republic of Armenia is Armenian Dram.

Prices for sale of goods (property), provision of services, payment of salaries and payments equivalent to salary, assessment of property and execution of works and use of property within the Republic of Armenia shall be quoted in dram of the Republic of Armenia.

The general rule is that payments between residents of the Republic of Armenia against the foregoing activities, including interest payments on financial operations, compensation for execution or transfer of rights or privilege and insurance contributions and indemnifications shall be accepted and made in drams of the Republic of Armenia.

Prices in contracts signed between resident legal person or private entrepreneur and nonresident legal person or private entrepreneur, providing for payment through banking transfer may be quoted in foreign currency.

The cash exchange is possible all over the country not only in commercial bank offices but also in so-called exchange points, the activity of which is also being regulated by the Central Bank of Armenia. The CBA publishes the average market exchange rate on its official website on a daily basis.

There are some restrictions on cash exchange partly due to the current situation in the region. Among the actual ones are: limit on exchange for more than USD 200 or equivalent in exchange points without passport as well as limit on exchange in exchange points of amounts more than USD 5,000 or equivalent at once.

5 International banking availability (possibility to open bank account in a local bank etc.)

The banking system of the Republic of Armenia includes the Central Bank of the Republic of Armenia, the banks operating in the territory of the Republic of Armenia (including subsidiaries), branches thereof, representations, functional offices (terminals), as well as the branches and representations of foreign banks operating in the territory of the Republic of Armenia.

Among those there are 17 commercial banks in Armenia. There are banks with Russian, UK, Swiss, Lebanese and Iranian capital. Most commercial banks have their mobile applications as well as internet banking.

The regulatory authority is the Central Bank of the Republic of Armenia.

As per the official information shared by most banks it is possible to open a bank account not only for foreign legal entities but also for foreign individuals, and even via online banking tools. However, in practice, the process of opening bank accounts for foreign nationals and foreign legal entities is quite complicated, if not impossible at all.

Due to the current situation in the region the regulations are being changed quite often.

For the locally registered PE as well as trade organizations such as limited liability companies, it is possible to open bank accounts as well get online/mobile banking activation.

In practice the executive bodies/directors of limited liability companies should also get some status of residence/obtain a public services number (so called - social card) to acquire access to be registered in the tax system and submit mandatory tax reports.

For opening bank accounts for the foreign citizen PEs, most of the banks also request to present social cards, which can also be obtained by the individual not having permanent in the country. Bank account opening process can take up to 2 weeks for the foregoing non-resident categories of individuals.

Among the commercial banks there are some requesting to fill in online/email applications for further processing with the accounts opening.

The following types of internationally recognized bank system cards are operating and/or issued in Armenia: VISA, MasterCard, UnionPay, JCB, American Express, Mir, Diners Club International.

Most Armenian banks (15) are united under the ArCa National payments system and issue ArCa payment cards.