

# Tax & Legal Alert

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## Profit tax reduction for listed companies

To encourage development of the Armenian capital markets, Parliament has enacted a law that will reduce the profit tax burden of listed companies by up to AMD 300 million per year from 2009 to 2012.

This Alert provides a brief background to the new rules. For more information, please contact one of the individuals identified below.



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## Incentive for listed companies

Amendments to the profit tax and value-added tax laws granting incentives to companies listed on the Armenian Stock Exchange took effect on 9 July 2009. The existing listed company ("Armenian Economy Development Bank" OJSC), as well as companies that list on the Exchange by 31 December 2012, will be entitled to a reduction in profit tax for any year in which certain requirements are met.

To list on the Exchange, a company must have minimum equity capital of AMD 500 million, and have audited financial statements for its last three years of operation.

The incentives do not apply to companies whose prices (tariffs) are regulated.

### Profit Tax

Resident companies listed on the Armenian Stock Exchange with at least 20% of their shares publicly held by 100 or more shareholders will be entitled to a reduction in profit tax. Provided such companies prepare and publish their financial statements under IFRS, they will be entitled to a 50% reduction in their profit tax (up to a maximum of AMD 300 million per year). The incentive applies to the 2009 to 2012 income years.

The incentive will be repayable (plus penalties) if the company delists, liquidates (other than for bankruptcy) or reduces the public issue below 20% before 31 December 2015.

### Value-added tax

Companies that decide to list will be entitled to a refund of the VAT paid on legal services, marketing services, IT services, audit services rendered in accordance with IFRS, accounting services rendered in accordance with IFRS and the listing services of the Stock Exchange. To obtain a refund, the volume of services and VAT amounts must be indicated separately in agreements and settlement invoices.

The incentive will be repayable (plus penalties) if the company delists or liquidates (other than for bankruptcy) within six years of listing.

**Our comment:** Unless the listing company makes VAT-exempt supplies (requiring input tax credits to be apportioned) or would have excess input taxes that do not relate to zero-rated sales (i.e., non-refundable credits), it is unclear why the VAT "refund" should offer any advantage over normal VAT crediting. Given the Government's track record for issuing VAT refunds, companies may be better off to disregard the "incentive." It appears this could be done by ensuring the volume of services and VAT amounts are not separately indicated in agreements and settlement invoices relating to "privileged" services.

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