

Armenia

Small Business Participates in Big Reforms

Yerevan, Armenia – The newly established government has embarked on a series of small business policy reform. With this effort, the government is recognizing that the existing legislation is outdated, inconsistent, and contradictory and does not reflect the needs of the small business sector in Armenia. This is also documented by the World Bank’s reports on Doing Business showing that Armenia has been sliding in the rankings on “ease of doing business” in the last few years from rank 39th in 2007 to 44th in 2009. Concerned with such performance, the Prime Minister Sargsyan has announced in July that Armenia needs to become a “center of excellence” by improving on the Doing Business criteria and advancing the small business reform.

The new government started the process with a series of consultations with the business associations, chambers of commerce, and business support organizations to find out their views on the key challenges to the business sector. Next, several working groups formed with appropriate representatives of government ministries and agencies such as the Ministry of Trade and Economic Development, Ministry of Finance, the State Tax Service, Customs Administration, and business associations and other NGOs. The working groups developed recommendations for legislative and administrative reforms to address the problems identified in the rounds of consultations. The prime minister held hearings on the findings of the working groups. As a result of these consultations, one of the key challenges for the small businesses became clear – the cumbersome taxation system. Currently, a business entity spends on average 958 hours to prepare the required documents, according to the Doing Business 2009 survey.

CIPE partner the Association for Foreign Investment and Cooperation (AFIC) participated in the working groups focusing on tax reform. AFIC representative was an active member in the newly created Advisory Council on tax reform that reviewed and proposed changes to the tax-related legislation and implementation mechanisms. AFIC and other council members reviewed a package of 18 tax-related laws and proposed a set of changes. The draft package was presented to an extraordinary summer session of the National Assembly on August 19. The presentation of the draft proposals was originally scheduled for September-October but the government decided to move ahead with the package to the National Assembly in August and called the extraordinary session even though August is a recess time for members of parliament. Several of AFIC’s recommendations from the last project with CIPE were included in the package among which was electronic submission of tax reports by economic entities.

The National Assembly adopted the entire package of legislative changes including the law on profit tax for economic entities, law on VAT, and law on tax audits. Some of the changes will be applied immediately, others starting on January 1, 2009. These newly modified laws will affect positively the small businesses and will improve and simplify tax reporting for small business:

- Quantity and quality of information to be reported to tax administration is reduced
- Entrepreneurs are able to send tax reports and other related documentation to tax administration through an electronic system

- Payment procedures for profit tax and income tax are simplified
- Procedure and regulations for performing tax audits on small business by tax officials are simplified and clearly stated
- Practice of collecting advance payments of profit tax are terminated
- Small businesses are not required to pay VAT and submit complicated documentation related to VAT.

AFIC considers this as a significant step forward in the policy reform especially since the business community participated in every step of the way starting with the broad consultations. This is a good foundation for further business-friendly reforms for the small entrepreneurs. AFIC believed it is very important to continue its engagement with the government. Even with the recent success, they recognize that there is still much progress to achieve to improve the country's record of reforms. As these efforts by AFIC and other business organizations demonstrate, the business community directly benefits from participating in a democratic policy-making process. This experience shows that the participation of the business community in the reform process results in the formulation and implementation of effective policies for the small businesses.