**PROS AND CONS OF COMPANY (UNDER A NATURAL PERSON AND LLC IN ARIMENIA)**

**LEGAL ASSESSMENT**

**Subject: Comparison of Business Registration under a Natural Person (Igor T., Russia) vs. Limited Liability Company (LLC) in Armenia**

**This legal assessment evaluates the pros and cons of registering a business under a natural person (Igor T., a citizen of the Russian Federation) or as a Limited Liability Company (LLC) in Armenia, considering ownership structures where Indian residents hold shares as follows: 95%, 49%, 0% for Indian residents.**

**1. Registering the Business Under a Natural Person (Igor T., Russia)**

**Advantages (Pros):**

1. **Simplicity & Lower Costs:**
   * Registration and ongoing operational costs are minimal, as there are no corporate registration fees, legal formalities, or complex tax filings compared to an LLC.
   * Easier to manage the business with fewer compliance requirements.
2. **Full Control and Flexibility:**
   * Igor T. would retain full ownership and control over the business, with no requirement for corporate decision-making structures.
   * No complications related to shareholder disagreements.
3. **Potential Tax Advantages:**
   * Depending on the specific tax status of Igor T., Russia offers favorable taxation rates for self-employed individuals (ranging from 4-6%) compared to corporate rates in Armenia.
   * Lower taxes on personal income as compared to corporate profits.
4. **No Double Taxation:**
   * If Igor T. is the sole owner, there is no need for dividend distribution, eliminating the risk of dividend taxes.

**B. Disadvantages (Cons):**

1. **Unlimited Liability:**
   * As a sole proprietor, Igor T. would be personally liable for all debts and obligations of the business. This means his personal assets are at risk in case of legal or financial issues.
2. **Limited Credibility:**
   * The business may face challenges in gaining the trust of international clients, investors, and partners due to the informal nature of the structure. Many larger organizations prefer dealing with LLCs or corporate entities.
3. **Limited Growth Potential:**
   * Raising capital or expanding the business is more challenging without a formal corporate structure. There are limited opportunities to bring in investors or distribute shares.
4. **Complex Taxation for International Operations:**
   * If the business is operating internationally, particularly in India or Armenia, there may be complex issues regarding cross-border taxation, including the potential for double taxation.
5. **Legal Risks in Russia:**
   * Self-employed individuals conducting significant business activities in Russia may face increased regulatory scrutiny and potential legal risks.

**II. Business Registration as a Limited Liability Company (LLC) in Armenia**

**A. Advantages (Pros):**

1. **Limited Liability Protection:**
   * Shareholders’ personal assets are protected from any business debts or legal liabilities, as the LLC is a separate legal entity.
2. **Enhanced Credibility:**
   * The LLC structure offers higher credibility, making it easier to attract investors, partners, and clients, particularly internationally.
3. **Tax Benefits in Armenia:**
   * Armenia provides favourable tax incentives for IT companies, including a **5% corporate tax rate** and **0% tax on reinvested profits**, which can be beneficial for growth and expansion.
4. **Flexibility in Ownership Structure:**

* The LLC allows for the division of ownership into shares, making it easier to allocate ownership among multiple individuals, including foreign partners (e.g., 95% for Igor, 49% or 0% for Indian residents, depending on applicable laws).

1. **Better Investment & Growth Potential:**
   * As an LLC, the business is better positioned to attract external investment, expand its operations, and raise capital through various channels, including equity issuance.
2. **International Operations and Banking:**
   * Armenia provides favorable international banking and business practices, making it easier for the business to operate globally, including cross-border transactions.

**B. Disadvantages (Cons):**

1. **Higher Administrative and Compliance Costs:**
   * Setting up and maintaining an LLC in Armenia involves higher costs compared to operating as a natural person. These include registration fees, ongoing legal compliance, accounting, and reporting requirements.
2. **Dividend Taxation:**
   * Profits distributed as dividends are subject to a **5% dividend tax**, which could increase the overall tax burden compared to a sole proprietorship.
3. **Regulatory and Compliance Complexity for Foreign Ownership:**
   * If Indian residents hold shares in the LLC (e.g., 49% or 0%), additional regulatory considerations regarding foreign ownership in Armenia may apply. This may require legal counsel to ensure compliance with Armenian corporate laws and foreign ownership restrictions.
4. **Management Complexity:**
   * The LLC structure may require more formal management processes, including the creation of shareholder agreements, corporate resolutions, and formal decision-making processes.

**Comparison Table: Natural Person vs. LLC in Armenia**

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| **Criteria** | **Natural Person (Igor T., Russia)** | **LLC in Armenia** |
| **Liability Protection** | ❌ Personal liability | ✅ Limited liability |
| **Credibility & Trust** | ❌ Lower (self-employed) | ✅ Higher (registered company) |
| **Tax Rates** | ✅ Possibly lower for individual income | ✅ 5% corporate tax for IT |
| **Dividend Tax** | ✅ No dividend tax | ❌ ~5% on dividends |
| **Administrative Costs** | ✅ Low | ❌ Higher (registration, reporting) |
| **Legal Risks** | ❌ High (subject to Russian laws) | ✅ More stability in Armenia |
| **Investment Potential** | ❌ Limited | ✅ Easier access to funding |
| **Foreign Ownership** | ❌ Not applicable | ❌ May require compliance for Indian partners |
| **International Operations** | ❌ Harder due to Russia’s regulations | ✅ Easier with Armenia’s international banking |