Voluntary Liquidation Procedure.
Preliminary Findings.
Voluntary Liquidation Procedure. Preliminary Findings.
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## Glossary

- **CBU** – Central Bank of the Republic of Uzbekistan
- **COM** – Cabinet of Ministers of the Republic of Uzbekistan
- **IFC** – International Finance Corporation
- **ILBS** – Intermediate liquidation balance sheet
- **LBS** – Liquidation balance sheet
- **TIN** – Taxpayer Identification Number
- **Khokimiyat(s)** – Local authorities
- **Registration authorities** – Inspectorates for Registration of Business Entities under District (City) Khokimiyats
- **Regulation, Regulation on Liquidation, Regulation on Voluntary Liquidation** – Regulation on Voluntary Liquidation and Termination of Activities for Business Entities, approved by President’s Resolution, April 27, 2007, # PP-630
Preface

IFC would like to present its evaluation of the Regulation on Voluntary Liquidation and Termination of Activities for Business Entities, effective July 1, 2007. IFC carried out this research within the framework of the Uzbekistan Regulatory Impact Assessment exercise (RIA.)

This report is based on findings of comprehensive research conducted by IFC from May-June 2008. The project team used the following methods: interviews with former management of companies voluntarily liquidated in all regions of the country after July 1, 2007; focus-groups; and in-depth interviews with entrepreneurs and consulting companies specializing in liquidation services. This model yielded unbiased and comprehensive information on the procedure in question and explanations at various stages.

The report reflects the businessmen’s views on processes, featuring SME activities, and not the opinion of IFC. IFC examined all collected data and produced specific recommendations on for the resolution of voluntary liquidation-related problems listed by survey participants.

The IFC Uzbekistan Business Enabling Environment Project appreciates the invaluable contribution made to this report by the State Committee for Demonopolization and Support of Competition and Entrepreneurship, State Statistics Committee, the Chamber of Trade and Industry, and our colleagues from the World Bank Country Office in Uzbekistan and IFC Advisory Services in Eastern Europe and Central Asia.

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Overview

IFC’s survey, conducted from May–June 2008, demonstrates that the introduction of voluntary liquidation procedure on July 1, 2007 substantially improved the process of dissolving a business and reduced the terms. The maximum time for liquidation did not exceed seven months as compared to one year and more under the previous procedures. On average, the liquidation process costs are lower now and cost about $60 for businesses after July 2007 (compared to about $160 in 2005).

However, problems still persist in implementation of the liquidation procedures. The underlying issue is that the regulation is not followed in practice by government registration and tax authorities and other organizations involved in liquidation. Officials regularly:

- Violate the established time limits;
- Shift their responsibilities to businessmen;
- Force entrepreneurs to go through additional unscheduled procedures; and
- Require additional documents not specified in the regulation.

The table below briefly describes the main sources of the problems, recommendations for their resolution, and the expected impact of implementing these measures.
### Table 1. Key Problems of Voluntary Liquidation System, Main Reasons, and Recommendations on Solutions

<table>
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<th>Sources of Problems</th>
<th>Recommendations</th>
<th>Expected Impact</th>
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<tr>
<td>Government authorities and banks disregard the legal time limits</td>
<td>Registration and tax officials do not have clearly assigned duties on liquidation</td>
<td>1. In-house regulations for registration and tax authorities need to be brought in line with the provisions on liquidation procedures;</td>
<td>In short and medium-term:</td>
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<td>No mechanism is available for coordination between government authorities</td>
<td>2. Guidance needed on inter-agency coordination;</td>
<td>- Reduction of time spent for voluntary liquidation;</td>
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<td>Entrepreneurs must fulfill duties which are now the legal responsibility of government authorities</td>
<td>The legislation on voluntary liquidation contains ambiguity and contradictions</td>
<td>3. Provisions must be clarified and conflicts in the legislative framework eliminated;</td>
<td>- Increasing the responsibility of government officials;</td>
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<td>Entrepreneurs must undergo additional procedures not envisaged by the regulation</td>
<td>Officials in charge of liquidation have heavy workloads</td>
<td>4. Entrepreneurs and officials must learn their rights and responsibilities regarding the new liquidation procedure;</td>
<td>- Reducing potential for misbehavior of officials and thus decreasing instances of unofficial payments;</td>
</tr>
<tr>
<td>Government authorities require additional documents not required by law</td>
<td>No efficient control mechanism is available over officials</td>
<td>5. Stricter control over compliance with legislation should be exercised</td>
<td>- Raising legal awareness of businessmen;</td>
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<td></td>
<td>Government officials “push” entrepreneurs to make unofficial payments</td>
<td></td>
<td>- Decreasing the number of businesses not involved in financial and economic operations.</td>
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<td></td>
<td>Low legal awareness among entrepreneurs and officials involved in liquidation procedures</td>
<td></td>
<td>Eventually these measures should help increase the number of operational businesses.</td>
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VoLUNTARy LIqUIDATIoN PRoCEDURE. PRELIMINARy FINDINGS

The survey reveals that government authorities and organizations frequently do not follow the new procedures for voluntary liquidation. The resulting problems for entrepreneurs are as follows:

- Government authorities and banks disregard the legal time limits for liquidation procedures;
- Businessmen have to carry out some liquidation procedures themselves, even though these procedures are the mandated responsibility of the government authorities;
- Entrepreneurs are required to undergo procedures that are not envisaged in the Regulation on Voluntary Liquidation; and
- Government authorities request documents which are not required by law.

IFC’s business environment survey conducted in 2006 illustrated the problematic nature of voluntary liquidation for most businesses. Subsequent analysis revealed the defective nature of the legal framework as the main reason for these problems. Legislation at that time lacked any detailed provisions for voluntary liquidation. This allowed officials to “invent” their own rules.¹

The situation changed in 2007 after the Regulation on Voluntary Liquidation and Termination of Activities for Business Entities² came in effect on July 1. This document clearly and consistently formulates the voluntary liquidation procedure for business entities (incorporated companies and individual entrepreneurs). Annexes 2 and 3 include illustrative figures of previous and new voluntary liquidation processes as well as step-by-step illustrations of newly established arrangements.

¹ For more details see the IFC Report Business Environment in Uzbekistan as Seen by Small and Medium Enterprises 2005 (www.ifc.org/uzbее).
² Approved by President’s Decree ##PP-630, April 27, 2007.
Adopting a single regulation with a detailed definition of the liquidation procedure has been a breakthrough. This regulation has streamlined the liquidation procedure and put an end to the arbitrary practices of illegal requirements made by government authorities. The regulation has widened access to information on the liquidation process and reduced the potential for corruption. In addition, the regulation incorporates a number of provisions which simplify the liquidation procedures for entrepreneurs (see Box 1).

**Box 1**

The following innovations have been entered into force with adoption of the regulation on July 1, 2007:

- **New “one-stop-shop” principle.** The regulation introduces the liquidation procedure which is predominantly based on the principle of a “one-stop-shop” where the latter is represented by the registration authority (inspectorate for registration of business entities under district (city) khokimiyat.) This authority is now in charge of functions which previously were the responsibility of businessmen (surrender of seals and stamps for destruction to the police; submission of original licenses (permits) to the authorizing body; and liquidation notification to the branch of the People’s Bank.)

- **Granted privileges.** Legal entities now receive a number of benefits if they liquidate voluntarily. From the day of notification of voluntary liquidation, no accrual takes place on some taxes and all tax and other fines, related to mandatory payments. The regulation also prohibits the taxation of shareholders’ funds if they are transferred voluntarily to the dissolving company to clear its liabilities.

- **Time limits of liquidated procedures.** The regulation specifies the time limits for each authority to complete its task. The terms for tax inspection appointment and fulfillment are defined now – three and 30 days respectively (previously the inspection time was not specified, resulting in six to eight month delays).

- **“Silence Is Consent” principle introduced for tax inspections.** In particular, if tax inspection is not completed according to the established time limit, then tax and relevant arrears of businesses are assessed on the basis of calculations presented by the liquidator.

- **Documents submitted for liquidation.** The regulation defines the full list of documents to be submitted to government authorities when dissolving a business and clearly states that the documents can be submitted in person or mailed to the registration authority.

- **Satisfying creditors’ claims.** The regulation defines settlement procedures with creditors as well as the priority right of the pledge holder to satisfy its claims. And,

- **Special voluntary liquidation procedure of businesses not involved in financial and economic activities.** These companies liquidate without tax inspection.

The adoption of the regulation allowed Uzbekistan to become one of the top ten global reformers of business liquidation matters, according to *Doing Business 2008*, a publication of the World Bank Group comparing business environment regulation in 178 countries.3

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«Before the regulation, all government institutions involved in liquidation created their own “rules of play” based on their own experience. Now entrepreneurs can indeed rely on a specific legal instrument and insist on its observance.»

— Focus-group participant, entrepreneur

On average, the liquidation process costs about $60 after July 1st, 2007 for businesses (compared to about $160 in 2005).

Box 2

Based on survey results, IFC experts estimate that the annual economic impact from the introduction of a new voluntary liquidation procedure for legal entities in the country is $361,700. This is the sum of direct benefits to entrepreneurs for reducing their liquidation costs.

However, problems still persist in implementation of the liquidation procedures. The underlying issue is that the regulation is not followed in practice by government authorities and organizations involved in liquidation. Officials regularly:

• Violate the established time limits;
• Shift their responsibilities to businessmen;
• Force entrepreneurs to go through additional unscheduled procedures; and
• Require additional documents not specified in the regulation.

These problems are detailed below.

**Government authorities and banks disregard the legal time limits**

One major advantage of the regulation is that there are strict deadlines imposed on government authorities for each step of the liquidation process. This has already made a positive impact. For instance, the time an entrepreneur had to wait for an inspection to be designated and started was traditionally the longest stage of the liquidation process. Focus-group have shown that in recent years, six to eight month delays were typical. The latest survey, carried out after adoption of the regulation, showed that the period was less than 4.5 months for all respondents.

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4 Average 2005 exchange rate of 1,120 Uzbek soums to $1 and January 1, 2008 exchange rate of 1,290 Uzbek soums to $1 are applied in this report.
Yet, on average, government authorities are still far behind the time limits established in the regulation (see Figure 1). For instance, the regulation stipulates that a tax inspection should start within three working days from receipt of the liquidation notification from a registration authority. In practice businessmen have to wait for about a month (24 working days) on average. Other involved organizations and servicing banks also disregard these time limits.

Entrepreneurs must fulfill duties which are now the legal responsibility of government authorities

The regulation requires that liquidation is predominantly performed according to the “one-stop-shop” principle. This, in theory, should ease the liquidation process for businessmen but in turn increases the workload of government authorities and requires their better coordination. As the survey shows, government officials are off-loading their duties onto entrepreneurs. For example the latter often are obliged to inform a number of organizations, including tax, statistics, and police, about their liquidation yet this is the duty of registration authorities (see Figure 2). According to focus groups, there are cases when requests, letters, and notifications regarding liquidation procedures and concerning relations between registration authorities, tax administration, and servicing banks are sent by their staff through entrepreneurs.
Entrepreneurs must undergo additional procedures not envisaged by the regulation

Under certain circumstances, the liquidating entrepreneur, according to the regulation, is entitled to stop his operations without being inspected by the tax administration. The survey shows however, that most often he is not able to resort to this right in practice (more details in Box 3). This situation substantially complicates the liquidation process. Furthermore it challenges the efficacy of the special conditions for businesses not involved in financial and economic operations.

**Box 3**

The regulation has a provision aimed at protecting the rights of dissolving businesses against inspection delays, particularly those caused by dishonest inspectors. The rule prescribes to assess tax and other arrears as shown in the liquidator’s estimates, if no inspection is designated and completed in legally mandated time limit. However, tax authorities often disregard the deadlines for appointing the inspection dates. The survey did not reveal any case when respondents used their own estimates and avoided the needless tax inspection.

Moreover, the regulation introduces a special scheme for voluntary liquidation of companies not performing financial and economic operations from the time of official registration. This scheme has fewer stages than needed for termination of a business. For example it excludes: tax inspection; assessment of all taxes and other mandatory payments; notification to, and settlements with, creditors and borrowers; and preparation/approval of intermediary and liquidation balance sheets. However registration authorities and tax administrations do not utilize this scheme. As a result, three-quarters of businesses not involved in financial and economic activities were liquidated according to the usual procedures for voluntary liquidation and had to fulfill all these excessive stages.

There are cases when servicing banks, in accordance with the instructions of the Central Bank on bank accounts, close accounts and issue a closing certificate only after the business is excluded from the state ledger. This situation not only leads to repetitive applications to the bank (before and after exclusion from the state ledger) but also complicates liquidation process for businesses because the bank certificate is necessary for exclusion from the state ledger.

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5 Annex 2 to Regulation on Voluntary Liquidation and Termination of Operations for Business Entities describes the scheme of voluntary liquidation of enterprises not pursuing any financial and economic activities from the time of official registration.

«Officials have no interest in easing our efforts. As to us, for example, they suggested that we liquidate not under the Regulation on Voluntary Liquidation but compulsorily. I know that many others who have attempted to liquidate voluntarily have run into the same problems.»

— Focus-group participant, entrepreneur

Government authorities require additional documents not required by law

While the regulation provides a complete list of all documents to be submitted to each authority, there are widespread cases of officials and bank employees requiring additional documents. This considerably increases the time and cost of liquidation (Box 4).

Box 4

Entrepreneurs who need a record to be made in the state ledger on business liquidation (final stage of liquidation), are additionally obliged to submit to the registration authority documents not required by the regulation: a begunok [departure clearance], police certificate confirming that seals and stamps have been destroyed, original founding documents (Article of Agreement and Articles of Association), and others. Experts estimate the time consumed while preparing these excessive documents is no less than one week.

The following reasons help explain the officials’ behavior:

REGISTRATION AND TAX OFFICIALS DO NOT HAVE CLEARLY ASSIGNED DUTIES ON LIQUIDATION

In their routine work all government employees involved in liquidation procedures follow in-house regulations (provisions, rules, etc.). These documents reveal vague job descriptions with regard to liquidation procedures, which complicate the entire liquidation process.

Box 5

In-house regulations of registration authorities – inspectorates for registration under khokimiyats – are developed on the basis of the model provisions. According to the latter, the structure of the Inspectorate includes a Division (Specialist) for Official Registration and Filing with one to three staff and a Division (Sector) for Permits Issuing with two to five staff. Therefore, the model provisions do not give any reference as to who performs the business liquidation functions and what these functions are about. Even the word “liquidation” appears in this 20-page document only three times.

Notes:
1 Inquiry form on business self-liquidation so that the company can be excluded from the State Ledger. A number of confirmations need to be collected from various authorities to fill it in and thus prove the lack of any arrears/obligations: Tax Administration, District Statistics Branch, labor exchange, trade union, servicing bank, Traffic Police, archive, and District Police Branch.

2 Model Provisions on Inspectorates for Registration of Business Entities under Khokimiyats of Cities and Districts, registered by the Ministry of Justice, September 27, 2003, #1279.
NO MECHANISM IS AVAILABLE FOR COORDINATION BETWEEN GOVERNMENT AUTHORITIES

Focus-groups and interviews with all involved government employees reveal that there are still substantial problems coordinating between registration authorities, other government institutions, and commercial banks participating in the liquidation process. There is no mechanism available to define officials' responsibilities and duties.

THE LEGISLATION ON VOLUNTARY LIQUIDATION CONTAINS AMBIGUITY AND CONTRADICTIONS

Ambiguity and contradictions in legislative norms lead to arbitrary interpretation by government authorities and servicing banks. This creates the environment for improper implementation of the legal provisions and complicates the liquidation procedures for businessmen, while increasing the potential for irregularities.

Ambiguities in the Regulation on Voluntary Liquidation

The regulation states that tax arrears for the dissolving company must be assessed according to the liquidator's calculations if the inspection is not completed in the established time limit.9 The established time limits include both the time for tax authorities to appoint and start the inspection (three working days) and the maximum period for tax inspectors to inspect the dissolving business (30 calendar days). However tax inspectors believe that this provision restricts only the time of the inspection itself. Therefore they try not to prolong the inspection; indeed, actual inspections have never lasted for more than 15 days, according to the survey respondents, and were completed within three days in half of the cases. What is often delayed in practice is the designation of the inspection date. In fact the State Tax Inspectorate sets the prioritized list of financial and economic inspections for dissolved companies and the average waiting time is about 24 working days. The ambiguous definition of the above restriction of the inspection time limit prevents entrepreneurs from being able to use their calculations to access tax arrears even if the inspection is not completed in proper time (three working days plus 30 calendar days since notification of tax authorities).

9 Par. 5, Item 20 of the Regulation says: “If the inspection is not completed in the time set by Paragraph 1 of this Item, arrears of the enterprise with regard to taxes and mandatory payments shall be assessed according to submitted calculations of the liquidator.” Par. 1 of the same Item, in turn, says: “The body of tax administration, within three working days from notification receipt from the registration authority, shall duly set about inspecting financial and economic activities (revision) of which the duration shall not exceed thirty calendar days.”
Another challenge for businessmen is the use of the liquidation scheme for companies not involved in any financial or economic operations from the day of official registration. Since the active legislation defines the notion of “financial and economic activity” in relation to “enforced” liquidation only, entrepreneurs and registration/tax authorities interpret the “non-involvement in financial or economic operations” differently. Officials resist any attempts by entrepreneurs to apply the above scheme even if, for example, the company only made a contribution to its statutory fund but did not have any other financial activity or operations. Only one in four businesses who have not been involved in any financial and economic operations before the decision to liquidate was dissolved without tax inspection. There were cases when tax inspectors, by insisting on inspection (i.e. liquidation according to the scheme for businesses with financial and economic activities), noted in the inspection certificate later on that “the enterprise did not fulfill any financial and economic activities.”

**Box 7**

**Contradictions in the Regulation on Voluntary Liquidation**

Items 47 and 48 in the regulation illustrate the contradictions in the legislation on voluntary liquidation. In Item 48, if the dissolving company does not have any financial and economic activities and has submitted the certificate from the bank on closure of the primary account, then the registration authority should enter a liquidation record within two working days from the receipt of documents. On the other hand, Item 47 obliges the registration authority to consult the tax administration before making a liquidation record, in order to verify that the company did not have any financial and economic activities. The regulation allocates three working days for preparation of this request and a reply from the tax administration.

**Box 8**

**Discrepancy between the departmental instructions and the regulation**

The regulation states that the bank closes the account and issues a certificate to the liquidator on the basis of the application/request. This stage is to be completed before application to the registration authority with an exclusion request. However CBU instructions establish that “the bank ... after completion of the liquidation process, based on the liquidator’s request, shall close the primary demand deposit account and issue a closure certificate to the liquidator within one working day...” This paragraph was an amendment to the instructions and was registered by the Justice Ministry in August 2007. Therefore the banks want written confirmation of “termination of the liquidation process.” However, as mentioned above, the liquidation process is considered complete only after a record is entered in the state ledger on dissolving the business. This record is only authorized if the bank certificate on account closure is available. The active legislation stipulates that “in case of divergence between legal instruments, the one with higher legal status shall be applied” but as we see this rule is not followed in practice. The result is a vicious circle when a certificate can only be received after the liquidation process is complete, yet liquidation can only be completed after the bank certificate is received.

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10 Item 1.2 of the Regulation On Liquidation Procedure of Enterprises not Involved in any Financial and Economic Activities and not Formed their Statutory Funds within Legally Established Timelines, approved by the COM Resolution, July 3, 1999, ##327.


OFFICIALS IN CHARGE OF LIQUIDATION HAVE HEAVY WORKLOADS

Officials often are not able to meet the liquidation deadlines because of being overwhelmed with other duties. For example the Model Provisions on Registration Inspectorates, as mentioned above, do not provide for particular staff in charge of liquidation procedures only. Therefore registration officials not only register and file but also dissolve business entities. Tax Inspectorates, according to focus-groups, appoint the inspection dates of financial and economic activities on a rotational basis with other inspections of business entities, scheduled and non-scheduled.

«Tax officers are very frequently assigned to the Prosecutor General Office – for several days, for a week. Usually these are the smartest and most competent inspectors who “bear the brunt” of inspection work. Because of their frequent and lengthy absence we have to sit and wait for inspection dates to be scheduled.»

— Focus-group participant,
Employee of a consulting group specializing in dissolving businesses

Moreover, it has become commonplace to charge the staff of registration/tax authorities with additional irrelevant functions. Officials of registration authorities, for instance, often have to deal with the improvement of social amenities on assigned territories. These distractions from liquidation duties lead to considerable delays.

NO EFFICIENT CONTROL MECHANISM IS AVAILABLE OVER OFFICIALS

Focus-group participants stated that the lack of control over officials in meeting the normative requirements allows them to violate the liquidation procedures with impunity. That sanctions are not applied for delays and other non-performance violations gives grounds for further abuse of power.
Government Officials “Push” Entrepreneurs to Make Unofficial Payments

The survey and focus-groups confirm that government officials often deliberately protract the liquidation or impose excessive requirements in the hope that businessmen will prefer unofficial ways of “solving the problem.” One in five interviewed admitted that they made unofficial payments during liquidation. The survey indicates that entrepreneurs spend on average about $17 to obtain a certificate from the tax administration confirming that the company has no tax arrears, for example, although this certificate should be issued free of charge.

«An official of the registration authority told us plainly that the liquidator should himself go to the district police office in order to destroy his seal and stamp since ‘police officers too need to earn their daily bread’. Furthermore, we had to destroy the seal and stamp before the liquidation record was entered in the state ledger, and that is sort of wrong.»

— Focus-group participant, entrepreneur

Low Legal Awareness Among Entrepreneurs and Officials Involved in Liquidation Procedures

The problems primarily result from the fact that businessmen are not aware of their rights and do not insist that liquidation procedures be followed according to the law. Therefore they are not able to contest the abusive actions of government authorities.

«Just look: the fact is that the same officials deal with both registration and liquidation. Recent years saw an “call to arms” regarding registration, regular checks are in progress of how registration procedures are implemented on sites. But nobody checks liquidation – no government institution is interested in this. As a result, the same staff person from the registration inspectorate who is afraid of breaking the rules when registering the enterprise does what he wants when it comes to liquidation.»

— Focus-group participant, Employee of a consulting group specializing in dissolving businesses
Recommendations on voluntary liquidation

Unfortunately local government offices are often indifferent about improving liquidation procedures. Many officials do not yet fully understand why it is important to simplify the liquidation process. Registration authorities, for example, receive target indicators to be achieved on the number of newly registered and/or active businesses, and liquidated entrepreneurs “skew the statistics.” An opinion also prevails that simplified liquidation procedures will promote the number of “fly-by-night” companies on the market.

However, despite the seeming paradox, it has been proven that a complicated liquidation process negatively affects the growth of performing small and medium enterprises. A number of international surveys demonstrate a direct correlation between the numbers of dissolved and established entities. This relationship is explained by the fact that a fair and transparent liquidation procedure gives entrepreneurs the “freedom to fail,” to better develop their talents, react more nimbly to the market, and efficiently use limited financial and labor resources. In addition, the instrumental liquidation procedure serves the interests of investors and creditors who get more funds to finance their new investment plans, since scarce resources are no longer being used to prop up enterprises that are no longer viable.

There is another reason why a simple and transparent procedure for voluntary liquidation adds value to the government. A complex procedure discourages entrepreneurs from going through the process and forces them to merely abandon their businesses. It is probable that the founders of fly-by-night companies are inclined towards this method of closing their business. Government in turn has to identify and dissolve such “abandoned” enterprises by using public funds, which, again, could be channeled to investments.

Therefore, further improvement of the liquidation process is paramount. The activities listed below will help resolve the problems in the field of voluntary liquidation. The recommendations suggesting amendments to current legislation are detailed in Annex 4.

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IN-HOUSE REGULATIONS FOR REGISTRATION AND TAX AUTHORITIES NEED TO BE BROUGHT IN LINE WITH THE PROVISIONS ON LIQUIDATION PROCEDURES

All in-house documents which regulate the activities of government authorities involved in liquidation procedures should be amended with detailed descriptions of their duties in the course of liquidation. First and foremost, changes need to be made to the Model Provisions on Registration Inspectorates, which are used as a basis to develop in-house documents for the registration authorities, since it is their employees who are ultimately responsible for implementation of the “one-stop-shop” principle in accordance with the Regulation on Voluntary Liquidation.

Box 10

IFC has indicated many times the need to amend the Model Provisions on Registration Inspectorates. Currently these provisions are not yet consistent with the President’s Resolution on Introduction of Application Procedures for State Registration and Filing of Business Entities №PP-357, May 24, 2006. This gives the registration officials grounds for neglecting the current official registration procedure. Annex 4 contains a more detailed list of amendments to be made in the Model Provisions in order to bring them in compliance with President Resolutions #PP-357 and PP-630.

GUIDANCE NEEDED ON INTER-AGENCY COORDINATION

Since various government institutions are involved in the process of liquidation, new instructions need to be developed and adopted with specific rules for fulfilling liquidation functions. The instructions should regulate the system and timelines of document flow, rights and duties of parties involved, and the accountability for offences against the laws on registration procedures. Such a mechanism, for example, was developed for institutions involved in the official registration of businesses. This helped to increase the cohesion of their work in registration and filing business entities.

EXPECTED IMPACT

If implemented, these measures would increase the accountability of officials in observing the established procedures due to a clear description of their responsibilities. Eventually this would put an end to requests for unauthorized paperwork and delays in liquidation terms, and would reduce the costs for liquidation procedures.

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15 Instructions on coordination between registration authorities and tax administration units as well as state statistics units when the notification procedure is used in the official registration of business entities, registered by the Ministry of Justice, October 31, 2006, ##1633.
PROVISIONS MUST BE CLARIFIED AND CONFLICTS IN THE LEGISLATIVE FRAMEWORK ELIMINATED

If entrepreneurs are to be spared the inconsistent interpretations in the voluntary liquidation process, then existing gaps and inconsistencies need to be eliminated. For this purpose some provisions of the Regulation on Liquidation need to be refined and modifications made in the CBU instructions on bank accounts. These changes and explanations regarding interpretation of areas of dispute should be disseminated to both entrepreneurs and local officials.

Box 11

As mentioned before, the current laws on voluntary liquidation have no definition of “financial and economic activities.” This definition applies only to “enforced” liquidation and in practice officials are free to use or not use this provision. This has already confused entrepreneurs when they need to decide which scheme to follow for the voluntary liquidation of business entities. The lack of clear definition also gives rise to other problems. For instance, it complicates inspections of businesses by various inspectorates. Therefore, it is recommended to include a definition of the “financial and economic activities” in the legal acts on voluntary liquidation, adopting the current definition from the regulation on liquidation procedure for enterprises which are not involved in any financial and economic activities and which have not created their statutory funds within the legally established time limits.

EXPECTED IMPACT

*Curtailing the scope for double interpretation of particular legislative provisions would substantially reduce the potential for irregularities and considerably ease the liquidation process for businessmen.*

ENTREPRENEURS AND OFFICIALS MUST LEARN THEIR RIGHTS AND RESPONSIBILITIES REGARDING THE NEW LIQUIDATION PROCEDURE

A regular public awareness campaign must be waged so that entrepreneurs and officials know and understand the legislative framework. Systematic media publications and publicity papers, distributed in registration authorities and the Chamber of Trade and Industry, should be as clear and straightforward as possible. A similar awareness campaign among entrepreneurs and officials on business registration has proven to be invaluable.

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16 Item 1.2 of the regulation on liquidation procedure of enterprises which are not involved in any financial and economic activities and have not formed their statutory funds within legally established timelines, approved by the Cabinet of Ministers Resolution, July 3, 1999, ##327.
«As to registration, all is superb – provided the entrepreneur knows his rights, of course. I mailed all my paperwork for example and they phoned me in due course in two days and asked to collect the registration certificate. I heard that some special workshops had been organized and then officials had been tested. Plus entrepreneurs started at last protecting their rights, that’s why they are scared to abuse the law. In my view this is exactly what we lack in the case of liquidation.»

— Focus-group participant, entrepreneur

EXPECTED IMPACT

Public outreach aimed at raising the legal awareness of entrepreneurs and officials will allow businesses to monitor how government institutions observe the established liquidation rules and publicly control the legitimacy of officials. This would curtail the potential for irregularities.

STRicter CONTROL OVER COMPLiANCE WITH LEGISLATION SHOULD BE EXERCISED

Strict control measures need to be implemented in order to prevent deviations from liquidation procedures. Legal sanctions should apply if officials violate the statutory procedure on voluntary liquidation (Box 12.)

Box 12

Item 61 of the regulation stipulates the legal responsibility of persons guilty of violating the provisions. This rule applies to transgression of procedure, time limits, and other elements of the liquidation process on the part of officials. Inappropriate implementation of official duties can result in administrative (Article 241, Administrative Responsibility Code of the Republic of Uzbekistan) or criminal (Articles 205-208 and 214, Criminal Code of the Republic of Uzbekistan) liability.

EXPECTED IMPACT

These measures would increase the responsibility of officials involved in liquidation and considerably simplify the process. An option of resorting to criminal procedures in order to hold officials accountable would become a serious tool for entrepreneurs to influence the liquidation process and ensure their rights. Eventually it should help reduce the time and costs entrepreneurs spend on these procedures.
This report is a follow up of the May-June 2008 IFC Survey. The latter included the following:

- Interviews on voluntary liquidation with 38 businessmen who officially dissolved their companies from July 1, 2007 through April 1, 2008; interviews covered all provinces of Uzbekistan, the Republic of Karakalpakstan, and Tashkent city;

- Focus-group and in-depth interviews with businessmen and law and consulting companies specializing in voluntary liquidation of businesses; and

- Review of regulations on voluntary liquidation of businesses.

These methodologies provided the necessary data for a comprehensive evaluation of the Regulation on Voluntary Liquidation of Business Entities.
Annex 2.

Figure 1. Voluntary Liquidation Procedure Before July 1, 2007
Figure 2. Voluntary Liquidation Procedure After July 1, 2007
Annex 3.

FLOWCHART
Voluntary Liquidation of Business Entities Involved in Financial and Economic Activities

<table>
<thead>
<tr>
<th>Stages</th>
<th>Entities</th>
<th>Mechanism</th>
<th>Time limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>Founders (shareholders)</td>
<td>Liquidator appointed</td>
<td>Decision on voluntary liquidation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Intended liquidation deadline scheduled</td>
<td></td>
</tr>
<tr>
<td>Stage 2</td>
<td>Administration of the</td>
<td>Transfer to liquidator all business documents, including company’s seals,</td>
<td>Three days after appointment of a liquidator</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>stamps, and other property</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Liquidator</td>
<td>Copy submission of voluntary liquidation decision to the registration</td>
<td>No later than one working day after voluntary</td>
</tr>
<tr>
<td></td>
<td></td>
<td>authority. The following are submitted to banks:</td>
<td>liquidation decision</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Voluntary liquidation decision, one copy;</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- Notarized samples of liquidator’s signatures and seal, two copies; and</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- Application/request on closure of all accounts and relevant balance</td>
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<td></td>
<td></td>
<td>transfer to demand deposit accounts denominated in national and foreign</td>
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<tr>
<td></td>
<td></td>
<td>currency.</td>
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</tr>
<tr>
<td></td>
<td>Bank</td>
<td>Suspension of all financial and economic activities.</td>
<td>From the day of notification to the registration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Suspension of accrual on taxes (on land, unified land, property, and water</td>
<td>authority</td>
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<tr>
<td></td>
<td></td>
<td>resources), including all fines resulting from taxes and mandatory</td>
<td>From the day of notification to the bank</td>
</tr>
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<td></td>
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<td>payments</td>
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<td></td>
<td></td>
<td>Writing off the funds from the company’s accounts by liquidator’s order</td>
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<tr>
<td></td>
<td></td>
<td>Suspension of memo-file #2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fund accumulation on single account by type of currency</td>
<td></td>
</tr>
<tr>
<td>Stage 3</td>
<td>Liquidator</td>
<td>Terminating labor relations with employees according to labor law</td>
<td>From the day of decision on voluntary liquidation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inventory of business assets and liabilities</td>
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<tr>
<td></td>
<td></td>
<td>Assessment of all taxes and other mandatory payments, from the</td>
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<tr>
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<td>beginning of the year to notification date of voluntary liquidation</td>
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<tr>
<td></td>
<td></td>
<td>Steps to recover receivables and identify/inform in writing the creditors</td>
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<td>on liquidation</td>
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</table>

17 In accordance with President’s Decree ##PP-630, April 27, 2007.
<table>
<thead>
<tr>
<th>Stages</th>
<th>Entities</th>
<th>Mechanism</th>
<th>Time limit</th>
</tr>
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</table>
| Stage 4 | Liquidator | Public announcement in one or several periodicals of company’s liquidation with the following details:  
- Full and short name of business;  
- Location (mail address), TIN;  
- Registration authority;  
- Notification on voluntary liquidation decision (date, number); and  
- Request deadline for creditors’ demands (no less than two months after announcement publication). | From the day of decision on voluntary liquidation |
| Stage 5 | Registration authority | Record in the State Ledger of Legal Entities on voluntary liquidating status of the company  
Notes on voluntary liquidation to:  
- Internal Affairs Authorities;  
- Tax Authorities; and  
- Statistics Authorities. | No later than one day after notification |
| | Internal Affairs authority | Informing the registration authority on all permits to produce effective seals and stamps with company’s name. | No later than 10 days after receipt of notification |
| | Tax authority | Arrangement and performance of financial and economic inspection for the company.  
Identification of tax and other arrears according to company’s assessments if inspection (audit) is not completed on time. | Three and 30 days respectively from the date of notification receipt |
| Stage 6 | Liquidator | Preparation of intermediate liquidation balance sheet (ILBS) in the context of inspection held by tax authority. | When the period is over for creditors’ claim submission |
| | Founders (shareholders) | ILBS Approval. | After ILBS submission for approval |
| | Liquidator | Written notification to each creditor on acknowledging or rejecting the claims, and amount acknowledged. | Within five working days after ILBS approval |
| Stage 7 | Liquidator | Settlements with creditors in order of precedence.  
Property sale if in need of settlement funds.  
Property transfer to creditors if not sold within two months. | After ILBS approval |
| | Founders (shareholders) | Possible satisfaction of creditors’ claims out of funds transferred to bank accounts of liquidated enterprise by founders (shareholders). | |
The regulation also specifies that the whole process of the voluntary liquidation should take no longer than nine months from the day when the registration authority is advised of the liquidation decision.
Annex 4.

Proposed Modifications to the Legislative Framework on Official Registration and Voluntary Liquidation of Business Entities

The “Voluntary Liquidation” section of this report gives recommendations on further improvement of the liquidation procedure. Current legislation needs to be revised to fulfill some of these recommendations. This annex details the recommendations by listing the suggested modifications and amendments. The details have been shaped according to law-making standards, a comparative table.

The comparative table is used in law-making when a need arises to list specific and clear changes (modifications or proposals) in the text of the legal instrument. In accordance with laws of the Republic of Uzbekistan, comparative tables normally consist of three columns: column 1 is for the active legislative text, column 2 is for the full newly edited text, and column three is for justification of proposed modifications and amendments. The revised parts of columns one and two are given in bold, italicized, or underlined.

In the table below, we listed not only the modifications and amendments arising from the recommendations on improving the voluntary liquidation procedures but also those regarding registration procedures for business entities. The reason for this is that registration-related legislation lacks uniformity. In addition, registration and liquidation issues regarding business entities are interconnected and sometimes regulated with the same instrument. Hence it is appropriate to give a list of detailed recommendations for each of the specified procedures.

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18 Sometimes the comparative table is called “synoptic table” or “table of comments and proposals.”
20 For example, Civil Code of the Republic of Uzbekistan and Model Provisions on Inspectorates for Registration of Business Entities under Khokimiyats of Cities and Districts, registered by the Ministry of Justice #1279 as of September 27, 2003.
Table 2. Comparative table on improving the legislation on voluntary liquidation

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<tr>
<th>N#</th>
<th>Current Edition</th>
<th>Proposed Edition</th>
<th>Rationale</th>
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<tbody>
<tr>
<td>1</td>
<td>Part 1, Item 20</td>
<td>Part 1, Item 20</td>
<td>The modifications eliminate different interpretations in Parts One and Three, Item 20. In particular, Part One, Item 20 defines the time of inspection appointment and performance. Part Three, Item 20 only refers to inspection completion time meaning not only the performance but also designation of inspection. However, the lack of clear timing references and legal unawareness of businessmen allows tax officials to interpret Part Three, Item 20 with regard to completion time of inspection only and thus delay the appointment date. Item 20 is recommended to be modified in this manner and thus prohibit these irregularities.</td>
</tr>
<tr>
<td>2</td>
<td>Sub-item C, Part Five, Item 39</td>
<td>Sub-item C, Part Five, Item 39</td>
<td>The words “after completion of liquidation process” are suggested to be excluded from this sub-item since the liquidation process ends up when a record is entered in the State Ledger on liquidation of business. On the other hand, record making is impossible without certificate on account closure. Taking into account that bank account is opened pursuant to company’s application it would be logical to close the account only on the basis of application, without any additional conditions. In addition, in accordance with Item 61 of the Regulation, legal responsibility is envisaged for breaking the established liquidation order. Hence the closure of bank account on the basis of liquidator’s application would not evoke any additional risks.</td>
</tr>
</tbody>
</table>

1. Instructions on Bank Accounts Opened in Banks of the Republic of Uzbekistan Registered by the Ministry of Justice, November 10, 2001, #1080

2. Table 2. Comparative table on improving the legislation on voluntary liquidation

3. Model Provisions On Inspectorates for Registration of Business Entities under Mayors’ Offices of Cities and Districts, Registered by the Ministry of Justice, September 27, 2003, #1279

4. Preamble
These Model Provisions on Inspectorates for Registration of Business Entities under Mayors’ Offices of Cities and Districts (further referred to as Model Provisions) were developed in accordance with the Civil Code, Laws on Local Governments and On Guarantees of Freedom in Business Activities, and COM Resolution on Cardinal Improvement of Registration Procedures System for Organization of Business Activities, August 20, 2003, #357.
### Voluntary Liquidation Procedure: Preliminary Findings

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<tbody>
<tr>
<td>4</td>
<td>Part 1, Item 3</td>
<td>Part 1, Item 3</td>
<td>Modifications are aimed at achieving consistency with active legislation in terms of:</td>
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<tr>
<td></td>
<td>Applicant (business entity or its founder - further referred to as Applicant) can apply to the Inspectorate with the following requests:</td>
<td>Applicant (business entity or its founder – in case of official registration; liquidation committee (liquidator) or special committee under district or city mayor’s office – in case of liquidation; and business entity – in case of voluntary liquidation of an unincorporated business entity) shall be able to apply to the Inspectorate with the following requests:</td>
<td>– Defining the range of eligible entities to apply to the Registration Inspectorate; and &lt;br&gt;– Defining the purpose of application to the Inspectorate.</td>
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<tr>
<td></td>
<td>– Official registration of business entity with concurrent filing of permitting papers; and</td>
<td>– Official registration of business entity with concurrent filing of permitting papers;</td>
<td>These modifications arise from the Tax Code (Art. 373), President’s Resolution #PP-630, and COM Resolution #327.</td>
</tr>
<tr>
<td></td>
<td>– Official registration of business entity without filing of permitting papers.</td>
<td>– Official registration of business entity without filing of permitting papers;</td>
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<td></td>
<td>– Entering record in the State Ledger on suspension of unincorporated business entity; and</td>
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<td>– Entering a record in the State Ledger on liquidation (termination of activities).</td>
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<td>5</td>
<td>Item 4</td>
<td>Item 4</td>
<td>Modifications are aimed at achieving consistency with active legislation in terms of defining specific time for the Inspectorate to complete the official registration (make an entry in the State Ledger on suspension, liquidation or termination of activities.)</td>
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<td></td>
<td>The processing time – from the day of application to official registration with issue of permit documents – shall be from seven working days to one month, subject to complexity and labor intensity of filing technical requirements and other permitting documents.</td>
<td>The processing time – from the application day to official registration (entering the record in the State Ledger on suspension, liquidation or termination of activities) shall be:</td>
<td>These deadlines apply to the following:</td>
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<td>– From seven working days to one month – for official registration and issue of permitting documents to businesses requiring a decision on allocation of land plots, connection to gas or electricity networks or which specify licensed activity as the primary business in the registration application (subject to the complexity and labor intensity of filing technical requirements and other permitting documents);</td>
<td>– Official registration of businesses with concurrent issue of permitting documents – Item 8, COM Resolution #357; &lt;br&gt;– Official registration on the basis of notification – Item 17, President’s Resolution #PP-357; &lt;br&gt;– Voluntary liquidation of incorporated businesses – Items 35, 48, President’s Resolution #PP-630; &lt;br&gt;– Voluntary liquidation of unincorporated businesses – Item 56, President’s Resolution #PP-630; and &lt;br&gt;– Liquidation of businesses not involved in financial and economic activities – Item 3.12, COM Resolution #327.</td>
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<td></td>
<td>– No more than two working days – for official notification based registration and record entry in the State Ledger on voluntary liquidation of incorporated company;</td>
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<td></td>
<td>– One working day – for record in the State Ledger on voluntary suspension or termination of unincorporated business entity; and</td>
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<td>– No more than three days – for liquidation of companies which are not involved in any financial and economic activities and have not formed their statutory funds within legally established time limits.</td>
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<tr>
<td>6</td>
<td><strong>Item 9</strong></td>
<td><strong>Item 9</strong></td>
<td>Modifications are aimed at achieving consistency with active legislation which establishes the following tasks for Inspectorates:</td>
</tr>
<tr>
<td></td>
<td>The Inspectorate shall have the following primary tasks:</td>
<td>The Inspectorate shall have the following main tasks:</td>
<td>– Notifying government authorities on suspension of unincorporated business entity – Article 373, Tax Code;</td>
</tr>
<tr>
<td></td>
<td>a) Receiving and evaluating the documents from the applicant planning to perform business activities and relevant justification papers;</td>
<td>a) Receiving and evaluating within legally established time limits the documents from the applicant and relevant justification papers;</td>
<td>– Issuing the applicant a decision in writing on record in the State Ledger on liquidation (termination of activities) – Items 36, 50, and 57 of President’s Resolution #PP-630;</td>
</tr>
<tr>
<td></td>
<td>b) Identifying the authorities to be consulted and from which operational permissions must be obtained, within their competences, such as formalization of technical requirements to be connected to engineer infrastructure (gas, electricity, water, sewage, heat, and telephone), transfer of domestic premises into non-residential, construction and reconstruction, and permissions to produce seals and stamps;</td>
<td>b) Identifying the authorities to be consulted and from which operational permissions must be obtained, within their competences, such as formalization of technical requirements to be connected to engineer infrastructure (gas, electricity, water, sewage, heat, and telephone), transfer of domestic premises into non-residential, construction and reconstruction, and permissions to produce seals and stamps;</td>
<td>– Notifying government authorities on record in the State Ledger on liquidation (termination of activities) – Items 36, 51, and 58 of President’s Resolution #PP-630; and</td>
</tr>
<tr>
<td></td>
<td>c) Officially registering business entities subject to availability of the above permitting documents; maintaining the ledger, and their filing in tax and statistics units;</td>
<td>c) Officially registering business entities in accordance with the legal procedure, maintaining the ledger, and their filing with tax and statistics units;</td>
<td>– Requesting tax units about data needed in accordance with legislation to enter a record in the State Ledger on liquidation (termination of activities) – Items 47 and 55 of President’s Resolution #PP-630.</td>
</tr>
<tr>
<td></td>
<td>d) Issuing to the applicant the Certificate of Official Registration along with other permitting documents; and</td>
<td>d) Issuing to the applicant the Certificate of Official Registration and, in cases required by law, all permitting documents;</td>
<td>In addition, President’s Resolution #PP-357 requires that when being registered on notification basis applicant’s documents be only checked within legally established limits – Item 22, President’s Resolution #PP-357.</td>
</tr>
<tr>
<td></td>
<td>e) Interacting with judicial authorities in provision of the Inspection Registration Book to new businesses.</td>
<td>e) Issuing the applicant a decision in writing on record in the State Ledger on liquidation (termination of activities) of business;</td>
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<td></td>
<td></td>
<td>f) Informing relevant authorities about location of incorporated business (with liquidation in progress) or about suspension of unincorporated business as well as about record in the State Ledger on liquidation (termination of activities);</td>
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<td></td>
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<td>g) In cases required by law, sending requests to relevant tax units for information needed in accordance with laws to make a record in the State Ledger on liquidation (termination of activities); and</td>
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<tr>
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<td>h) Interacting with judicial authorities in provision of the Inspection Registration Book to new businesses.</td>
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</table>
The Inspectorate shall perform the incumbent tasks through the following functions:

a) Receiving and evaluating the documents submitted for official registration (including official registration of modifications and amendments to establishment documents) as well as excluding from the State Ledger in connection with liquidation;

b) Maintaining the State Ledger of Business Entities;

c) Filing business entities in tax and statistics units and obtaining police permissions on production of seals and stamps;

d) Issuing to business entities the certificates of official registration with details of relevant statistics codes and TIN as well as permission of police authorities on production of seal and stamp;

e) Quarterly reconciling the number of registered and filed/recorded businesses with tax and statistics units;

f) Preparing pre-design permitting (preliminary permitting) documents with authorized bodies and housing operators, including geodesic topographic map, architectural planning assignment, and technical specifications for connection to engineer infrastructure (gas, electricity, water, sewerage, heat, and telephone lines) required for construction, reconstruction, and conversion of facilities;

g) Assisting in issue of relevant permission for conversion and reconstruction of facility;

h) Quick preparation of permitting documents for transfer of domestic premises into non-residential for the purpose of business operations;

i) Providing new businesses with the Inspection Registration Book; and

j) Other functions in relation to official registration of businesses and preparation of permitting documents.

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<tbody>
<tr>
<td>7</td>
<td>Item 10</td>
<td>Item 10</td>
<td>Modifiers are aimed at achieving consistency with active legislation which establishes the following tasks for Inspectorates:</td>
</tr>
</tbody>
</table>

- Notifying government authorities on suspension of unincorporated business entity - Article 373, Tax Code;
- Issuing the applicant a decision in writing on record in the State Ledger on liquidation (termination of activities) – Items 36, 50, and 57 of President’s Resolution #PP-630;
- Notifying government authorities on record in the State Ledger on liquidation (termination of activities) – Items 36, 51, and 58 of President’s Resolution #PP-630;
- Requesting tax units about data needed in accordance with legislation to enter a record in the State Ledger on liquidation (termination of activities) – Items 23 and 26, President’s Resolution #PP-357.

In addition, President’s Resolution #PP-357 requires that when being registered on notification basis applicant’s documents be only checked within legally established time limits – Item 22, President’s Resolution #PP-357.
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<td>m)</td>
<td>Immediately informing relevant authorities about location of incorporated business (with liquidation in progress) or about operational suspension of unincorporated business as well as about record in the State Ledger on liquidation (termination of activities);</td>
<td></td>
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<tr>
<td>n)</td>
<td>In cases required by law, sending requests to relevant tax units for information, needed in accordance with laws to make a record in the State Ledger on liquidation (termination of activities);</td>
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<td>o)</td>
<td>Issuing the applicant a decision in writing on record in the State Ledger on liquidation (termination of activities);</td>
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<td>p)</td>
<td>Providing new businesses with the Inspection Registration Book; and</td>
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<tr>
<td>q)</td>
<td>Other functions in relation to official registration, suspension and liquidation (termination of activities) of businesses and preparation of permitting documents.</td>
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8 Par. 1, Section III. §1. Receipt of Applications and Documents Related to Official Registration of Business Entities and Preparation of Permitting Documents

The following functions of Inspectorates dictate the need for modifications:
- Official registration;
- Entering records in the State Ledger on liquidation (termination of activities); and
- Entering records in the State Ledger on suspension of unincorporated business entity.

9 Part 1, Item 13

Documents for official registration of businesses and for preparation of permits are received personally or via mail (for official registration of individual unincorporated business or farms – in person only) strictly in accordance with the Provisions on Procedures of Official Registration and Filing Businesses and Preparation of Permitting Documents, approved by COM Resolution, August 20, 2003, #357.

Part 1, Item 13

Documents shall be handed over or mailed in the following cases:
- When business is registered on notification basis – strictly in accordance with the Provisions on Notification Procedures for State Registration and Filing of Business Entities, President’s Resolution #PP-357, May 24, 2006;
- Official registration of business entities requiring the decision on allocation of land plots, connection to gas or electricity networks or which specify the licensed activity as the main business in registration application – strictly in accordance with Provisions on Procedures of Official Registration and Filing Business Entities and Preparation of Permitting Documents, approved by COM Resolution, August 20, 2003, #357 – in case of official registration and preparation of permitting documents;
- Voluntary liquidation (termination of activities) – strictly in accordance with Provisions on Voluntary Liquidation and Termination of Operations for Business Entities, approved by President’s Resolution, April 27, 2007, #PP-630
- Suspension of unincorporated business – strictly in accordance with Tax Code; and

Modifications are aimed at achieving consistency with active by-laws regulating the operations of Registration Inspectorates and establishing the lists of relevant documents:
- Tax Code, adopted on December 25, 2007;
- President’s Resolution On Introduction of Notification Procedures for Official Registration and Filing of Business Entities, May 24, 2006, #PP-357; and
- President’s Resolution On Improvement of Voluntary Liquidation and Termination of Operations for Business Entities, April 27, 2007, #PP-630.

It should be noted here that active legislation on official registration/suspension/liquidation/termination allows all business entities, irrespective of purpose, to submit documents both personally and via mail.
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| 9   | Part 2, Item 14. Registry clerk shall accept documents, submitted by the applicant, during the entire working day. While accepting the documents, it is prohibited to provide expertise or other evaluation of submitted paperwork (except for cases when passport data are verified against information in the statement of official registration for individual unincorporated businessman or farm) and rejection thereof because of missing (insufficient) documents or for any other reasons. | Part 2, Item 14. Registry clerk shall accept documents submitted in person or by mail, during the entire working day. While accepting the documents, it is prohibited to provide expertise or other evaluation of submitted paperwork and rejection thereof because of missing (insufficient) documents or for any other reasons. | Active legislation on official registration/suspension/liquidation/termination allows all business entities, irrespective of purpose, to submit documents both personally and via mail. Therefore a reference was excluded that documents should be submitted by the applicant – to remove contradictions. Excluded are also all possible grounds to reject the documents, including submission of invalid information, since:  
   - Document verification is an exceptional authority of the Inspectorsate and that of the registry in the mayor’s office; and  
   - According to current legislation business entity is accountable for submission of any false data. |
<p>| 10  | Parts One and Two, Item 15. Registry of district (city) mayor’s office shall keep a special Application Registration Book on official registration and record of permitting documents in accordance with the form in Annex 1 thereof which need to be bound, numbered and officially sealed by mayor’s office. All incoming applications on official registration (including on modifications and amendments and exclusion from the State Ledger) and on preparation of permitting documents shall be registered in this Book and impressed with the registration stamp of the mayor’s office. | Parts One and Two, Item 15. Registry of district (city) mayor’s office shall keep a special Registration Book for applications and preparation of permitting documents in accordance with the form in Annex 1 thereof which need to be bound, numbered and officially sealed by mayor’s office. All incoming applications on official registration or records to the State Ledger (including on modifications and amendments, suspension of unincorporated business entity, and liquidation or termination of business activities) and on preparation of permitting documents shall be registered in this Book and impressed with the registration stamp of the mayor’s office. | Modifications are aimed at defining the accurate list of data included in the State Ledger. In particular, information is added on suspension of unincorporated business – in accordance with Article 373, Tax Code. The text of this provision is clarified too – in accordance with current legislation the State Ledger only incorporates information on liquidation/termination of operations. Such entities are not excluded from the Ledger. |
| 11  | Item 17. Division (Specialist) on Official Registration and Filing shall inspect the official registration of business entities (expert evaluation of submitted documents) and maintain the State Ledger. | Item 17. Division (Specialist) on Official Registration and Filing shall inspect the official registration of business entities (expert evaluation of submitted documents within legally established time limits) and maintain the State Ledger. | Modifications are aimed at achieving compliance with the Provisions on Notification Procedures for State Registration and Filing of Business Entities, President’s Resolution, May 24, 2006, #PP-357. In particular, in case of notification based registration document are only checked in terms of absence of rejection grounds clearly specified in the Provisions (Item 22.). |</p>
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<tr>
<td>13</td>
<td><strong>Item 18</strong></td>
<td><strong>Item 18</strong></td>
<td>The modification of the document list is aimed at achieving consistency with active legislation:</td>
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<td>Official registration of incorporated business shall be done on the basis of the following documents attached to the application:</td>
<td>Official registration of incorporated business shall be done on the basis of the following documents attached to the application:</td>
<td>– Item 10, Provisions on Notification Procedures for State Registration and Filing of Business Entities, approved by President’s Resolution, May 24, 2006, #PP-357; and</td>
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<td>– Two notarized original copies of establishment documents (no notarized certification shall be needed for registration of stock companies created on the basis of government owned enterprises);</td>
<td>– Two notarized copies of establishment documents in the official language (no notarized certification is needed for registration of stock companies created on the basis of government owned enterprises);</td>
<td>– Item 11 (edition dated August 7, 2006, COM Resolution #162), Provisions on Procedures of Official Registration, Filing Business Entities, and Preparation of Permitting Documents, approved by COM Resolution, August 20, 2003, #357.</td>
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<td>– Document confirming the mail address of business entity (except for individual and collective farm communities and stock companies created on the basis of government owned enterprises);</td>
<td>– Bank document on payment of due registration fee (except for individual farm communities and stock companies created on the basis of government owned enterprises);</td>
<td>– Item 10, Provisions on Notification Procedures for State Registration and Filing of Business Entities, approved by President’s Resolution, May 24, 2006, #PP-357; and</td>
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<td>– Bank document on payment of due registration fee (except for collective and individual farm communities and stock companies created on the basis of government owned enterprises);</td>
<td>– Certificate on absence of identical or confusingly similar trade names; and</td>
<td>– Item 11, Provisions on Procedures of Official Registration, Filing Business Entities, and Preparation of Permitting Documents, approved by COM Resolution, August 20, 2003, #357.</td>
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<td>– Certificate of trade name duly issued by district (city) statistics unit and valid for two months; and</td>
<td>– Sketches of seal and stamp, three copies.</td>
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<td>– Sketches of seal and stamp, three copies.</td>
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<td>14</td>
<td><strong>Item 19</strong></td>
<td><strong>Item 19</strong></td>
<td>To clear the references on regulations, listing additional documents submitted for official registration</td>
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<td>Official registration of legal entities under particular categories (joint stock companies established collectively, limited and superadded liability companies and, economic partnerships, farm communities, and businesses established after reorganization in the form of merger, division, allotment or transformation), in addition to documents from Item 18 thereof, shall require documents to be submitted as listed in Item 12 of Provisions on Procedures of Official Registration, Filing Business Entities, and Preparation of Permitting Documents, approved by COM Resolution, August 20, 2003, #357.</td>
<td>Official registration of legal entities under particular categories (markets, individual (incorporated) and collective farm communities, and businesses established after reorganization in the form of merger, division, allotment or transformation), in addition to documents from Item 18 of these Provisions, shall require documents to be submitted as listed in Item 11 of Provisions on Notification Procedures for State Registration and Filing of Business Entities, approved by President’s Resolution, May 24, 2006, #PP-357 (if registered on notification basis) or Item 12 of Provisions on Procedures of Official Registration, Filing Business Entities, and Preparation of Permitting Documents, approved by COM Resolution, August 20, 2003, #357 (if registered are businesses, which require the decision on allocation of land plots, connection to gas or electricity networks or which specify the licensed activity as the main business in registration application.)</td>
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Item 20
Official registration of unincorporated business shall be done on the basis of the following documents attached to the application:
For official registration of individual entrepreneur:
– Two pictures, 3x4 cm;
– Bank document on payment of due registration fee; and
– Sketches of seal and stamp, three copies (at discretion of individual entrepreneur); and
For official registration of individual farm community:
– Decision by general meeting of agricultural cooperative (shirkat) on establishment of community or supreme management body, or by employer (administration) of another agricultural enterprise and decision of district mayor on allocation of land plot;
– Sketches of seal and stamp, three copies (at applicant’s discretion).
When application is submitted for official registration of unincorporated individual entrepreneur and individual farm community, passport shall be produced.

Item 20
Official registration of unincorporated business shall be done on the basis of the following documents attached to the application:
For official registration of individual entrepreneur:
– Two pictures, 3x4 cm;
– Bank document on payment of due registration fee;
– Sketches of seal and stamp, three copies (at discretion of individual entrepreneur); and
– Copy of passport; and
For official registration of individual farm community:
– Decision of district mayor on allocation of land plot;
– Sketches of seal and stamp, three copies (at applicant’s discretion); and
– Copy of passport.

The modification of the document list is aimed at achieving consistency with current legislation:
– Item 10, Provisions on Notification Procedures for State Registration and Filing of Business Entities, approved by President’s Resolution, May 24, 2006, #PP-357; and

Item 21
Decision on official registration and justified rejection of registration shall be made starting from the day of application receipt (from the registration date of application) with relevant documents being attached:
– No later than two working days – for unincorporated individual entrepreneurs and individual farms; and
– No later than three working days – for all incorporated business.

Item 21
Decision on official registration and justified (with reference to specific norms of active legislation inconsistent with submitted documents) rejection of registration shall be made starting by the Inspectorate:
– When registering businesses on notification basis – within three office hours from the time of document submission. In this case rejection shall be only allowed on the grounds specified in the Provisions on Notification Procedures for State Registration and Filing of Business Entities, President’s Resolution, May 24, 2006, #PP-357; and
– When businesses are registered for which the decision is needed on allocation of land plots, connection to gas or electricity networks or which specify the licensed activity as the primary business in registration application – from the day of application receipt (from the date of application registration) with relevant documents being attached:
  – No later than two working days – for unincorporated individual entrepreneurs and individual farms; and
  – No later than three working days – for all incorporated business.

Modifications are aimed at achieving compliance of registration review time limits with the Provisions on Notification Procedures for State Registration and Filing of Business Entities, President’s Resolution, May 24, 2006, #PP-357.
Specified are also the grounds for rejection, i.e. contradiction with specific legal rules.
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| 17  | N/A            | **Item 23**<sup>1</sup> Except for cases when the Inspectorate makes a justified rejection decision within three office hours from the time of document submission under notification based registration, business entity shall be deemed registered and the Inspectorate shall:  
- Assign statistic codes to business entity by using statistic classifiers of administrative/territorial nomenclature, types of activities, ownership forms, and forms of incorporation;  
- Email a request to the district (city) tax administration to duly assign a TIN. If no email service is available the TIN assignment request shall be faxed. TIN assigning and forwarding to the registration authority shall take no more than eight office hours; and  
- Prepare the authorization on due production of seal and stamp – if their sketches are consistent with legislative requirements. Should the sketches be inconsistent, then the Inspectorate after consultations with business entity shall be able to modify respectively all submitted copies of sketches and prepare the authorization for production of seal and stamp. | Modifications are aimed at achieving compliance with the Items 22-26 of the Provisions on Notification Procedures for State Registration and Filing of Business Entities, President’s Resolution, May 24, 2006, #PP-357. |
| 18  | **Item 24** Within one working day from the date of registration the Inspectorate shall officially forward the relevant information from the State Ledger:  
- For legal entities – to statistics, tax, and police units with attached sketches of seal and stamp in three copies (when the entities are registered after transformation of legal entity, the seal and stamp of reorganized legal entity are also forwarded to the police for due destruction); and  
- For unincorporated individual entrepreneurs and individual farms – to tax and police units with attached sketches of seal and stamp in three copies (at individual entrepreneur’s discretion). | **Item 24** Within one working day from the date of registration the Inspectorate shall officially forward the relevant information from the State Ledger:  
- For legal entities – to statistics, tax, and police units with attached sketches of seal and stamp in three copies (when the entities are registered after transformation of legal entity, the seal and stamp of reorganized legal entity are also forwarded to the police for due destruction); and  
- For unincorporated individual entrepreneurs and individual farms – to tax and police units with attached sketches of seal and stamp in three copies (at individual entrepreneur’s discretion).  
If notification based registration is carried out, the police shall receive one copy of seal and stamp sketch being accompanied with copy of the permission for production of seal and stamp. | Modifications are aimed at achieving compliance with the Item 30 of the Provisions on Notification Procedures for State Registration and Filing of Business Entities, President’s Resolution, May 24, 2006, #PP-357. |
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<td>Within two days after receipt of information specified in Item 24 thereof:</td>
<td>Within two days after receipt of information specified in Item 24 thereof:</td>
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<td>– Tax units shall file the legal entity, unincorporated individual entrepreneur and individual farm community, including as payer of insurance fees to the extra-budgetary Pension Fund, Employment Fund, and Road Fund (for relevant payers), assign the TIN, and officially notify the statistics and inspection units;</td>
<td>– Tax units shall file the legal entity, unincorporated individual entrepreneur and individual farm community, including as payer of insurance fees to the extra-budgetary Pension Fund, Employment Promotion Fund, and Republican Road Fund (for relevant payers); and</td>
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<td>– Statistic units shall include the legal entity in the Unified State Register of Enterprises and Organizations, fill in the registration card, and officially notify the Inspectorate and tax unit about the assigned codes of business entity; and</td>
<td>– Statistic units shall include the legal entity in the Unified State Register of Enterprises and Organizations. Additionally in case of official registration:</td>
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<td>– Police units shall prepare the permissions for production of seal and stamp and forward them to the inspectorate with two copies of the sketch.</td>
<td>– – If requiring the decision on allocation of land plots, connection to gas or electricity networks or the licensed activity is specified as the primary business in registration application:</td>
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<td>– Tax units – shall assign TIN and officially forward it to statistics unit and the Inspectorate;</td>
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<td>– Statistic units – shall fill in the registration card and officially notify the Inspectorate and tax unit about the assigned codes of business entity; and</td>
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<td>– Police units shall prepare the permissions for production of seal and stamp and forward them to the inspectorate with two copies of the sketch. And,</td>
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<td>– – If done on notification basis:</td>
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<td>– Tax units – shall verify the absence of errors in TIN;</td>
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<td>– Statistic units – shall verify the consistency of statistics codes against entity’s data in application/notification (by doing so, no expert evaluation shall be done regarding the validity of information in application/notification). If errors are detected in TIN or assigned statistics codes then tax or statistics units shall email or fax the relevant authority about it within one working day. The Inspectorate, after receiving the notification, shall within one working day change relevant State Ledgers, prepare the new Certificate of Official Registration, inform the business entity, and issue the new Certificate.</td>
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<td>20</td>
<td><strong>Item 26</strong></td>
<td><strong>Item 26</strong></td>
<td>Modifications are aimed at achieving compliance with the Provisions on Notification Procedures for State Registration and Filing of Business Entities, President’s Resolution, May 24, 2006, #PP-357 and Provisions on Procedures of Official Registration and Filing Business Entities and Preparation of Permitting Documents, approved by COM Resolution, August 20, 2003, #357.</td>
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<td>The Inspectorate, after receiving code data from statistics units, TIN from tax units, and seal/stamp permission with two sketches from the police unit, shall:</td>
<td>After receiving in due order of TIN, statistics codes, and seal/stamp permission with two sketches, the Inspectorate shall:</td>
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<td>– Prepare and issue to the applicant the documents, stated by Item 40 thereof; and</td>
<td>– Prepare and issue to the applicant the documents, stated by Item 40 thereof; and</td>
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<td>– Simultaneously enter relevant data on official registration (recording) in the State Ledger.</td>
<td>– Simultaneously enter relevant data on official registration (recording) in the State Ledger.</td>
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It is also proposed to include a new paragraph (Par. 2, Note 1, Section III) in the Model Provisions On Inspectorates for Registration of Business Entities under Mayors’ Offices of Cities and Districts, with the purpose of achieving consistency with the following regulations:

- Tax Code, adopted on December 25, 2007;
- President's Resolution On Improvement of Voluntary Liquidation and Termination of Activities for Business Entities, April 27, 2007, #PP-630; and
- COM Resolution On Liquidation Procedure of Enterprises Which are not Involved in any Financial and Economic Activities and Have Not Formed their Statutory Funds within Legally Established Time Limits, approved by the, July 3, 1999, #327.

Proposed text of the new paragraph is as follows:

Par. 2, Note 1, Section III.

§21. Modification Procedure of the State Ledger on Suspension of Activities, Liquidation or Termination of Activities

28. The Inspectorate shall maintain the following State Ledgers of Business Entities:

a) State Ledger of Legal Entities;

b) State Ledger of Individual Entrepreneurs; and

b) State Ledger of Individual Unincorporated Farm Communities.

The State Ledgers shall be official documents. The Ledgers must be bound, numbered, and officially sealed by mayor’s office. Official registration data shall be entered in Ledgers in accordance with forms, established by President’s Resolution, May 24, 2006, # PP-357.

In case of available hardware and software it shall be allowed to maintain an additional database of registered business entities.

29. The maintenance of State Ledger shall include the following:

a) Record in the Ledger in connection with registration of new business entity;

b) Additional records on modifications and amendments of establishment documents;

c) Changes in the Unified State Register of Enterprises and Organizations (if the type of primary operations or staffing has changed) on the basis of written notifications from statistics units;

d) Changes of mail address on the basis of written notifications from business entities;

e) Changes in the location and certified type of main operations on the basis of written notifications from individual entrepreneurs;

f) Liquidation records; and

g) Changes in other business entity related data contained in the State Ledger.

29'. Division (Specialist) on Official Registration and Filing shall maintain and make entries in the State Ledger.

29". Within one working day, the Inspectorate on the basis of listed documents, shall make the following entry in the State Ledger:

- Location of incorporated business with liquidation in progress:

  • In case of voluntary liquidation – copy of decision on voluntary liquidation as per Item 3, Provisions on Voluntary Liquidation and Termination of Activities for Business Entities, approved by President’s Resolution, April 27, 2007, # PP-630. If business entity was not involved in any financial and economic activity from the moment of its official registration the decision shall mention it; and

  • In case of liquidation for businesses not involved in any financial and economic activities and not formed their statutory funds within legally established time limits – decision of economic court on liquidation of entity. And,

- Suspension of unincorporated business – application on suspension and relevant original Certificate of Official Registration.
293. In case of voluntary liquidation, no later than the next working day after receipt of relevant decision copy, the Inspectorate shall make an entry in the State Ledger of Legal Entities that the voluntary liquidation of business entity is in progress and inform relevant police, tax, and statistics units.

After receipt of the above information:

– Police unit – within 10 days shall inform the registration authority about all permissions to produce effective seals and stamps with company’s name; and

– Tax unit – within three working days shall duly commence the inspection of financial and economic activities (audit) of which the duration shall not exceed thirty calendar day (except for cases when business entity was not involved in any financial and economic activity from the moment of its official registration.

294. In case of liquidation for businesses not involved in any financial and economic activities and not formed their statutory funds within legally established time limits, the Inspectorate within three working days from the time of relevant document submission shall also agree with the intermediate liquidation balance sheet and liquidation balance sheet or reject and specify concrete reasons.

295. The Inspectorate shall make an entry in the State Ledger on the basis of the following documents:

– If incorporated business is voluntarily liquidated involved in financial and economic activities:
  • Public announcement in one or several periodicals of company’s voluntary liquidation;
  • Certificate of official registration;
  • Certificate of servicing bank on closure of all corporate accounts;
  • Seals and stamps;
  • Certificate of authorized body on invalidation of issued securities if any;
  • Originals of all licenses (permissions) if any;
  • Certificate of tax unit on lack of tax and other mandatory payment related arrears; and
  • Certificate of submission for all corporate documents to the State Archive;

– If businesses are liquidated which were not involved in any financial and economic activities and did not form their statutory funds within legally established timelines:
  • Application on exclusion of the liquidated business from the State Ledger of Legal Entities;
  • Certificate of official registration;
  • Certificate of bank confirming the closure of liquidated account;
  • Certificate of the police confirming the surrender of seals and stamps for relevant destruction;
  • Decision of the special committee on approval of liquidation balance sheet, the copy of which shall be attached and verified by tax administration;
  • Certificate of tax unit on absent or written off arrears to the State Budget and Extra-budgetary Funds; and
  • Certificate of submission for all corporate documents to the State Archive; and

– If incorporated business is voluntarily liquidating with available bank account:
  • Application on voluntary liquidation of business activities;
  • Certificate of tax unit on lack of tax and other mandatory payment related arrears. Tax administration shall issue the Certificate no later than two working days after application of individual entrepreneur and if tax and other mandatory arrears are available – no later than two working days after their repayment;
  • Seals and stamps, if any;
  • Originals of all licenses (permissions) if any;
  • Certificate of official registration; and
  • Certificate of the bank of closure of main account.
296. If a record needs to be made in the State Ledger on liquidation of incorporated business, not involved in any financial or economic operations from the day of official registration, or on suspension of unincorporated business and without any bank account, the Inspectorate shall receive the following documents:

- For incorporated business entity:
  - Public announcement in one or several periodicals of company’s voluntary liquidation. By doing so the announcement shall contain information mentioned in sub-item C, Item 43, Provisions on Voluntary Liquidation and Termination of Operations for Business Entities, approved by President’s Resolution, April 27, 2007, # PP-630;
  - Certificate of official registration;
  - Letter of advise on non-availability or certificate of bank on closure of account if any;
  - Decision of establisher (shareholders) on distribution of property among them;
  - Seals and stamps; and
  - Certificate of submission for all corporate documents to the State Archive; and

- For unincorporated business entity:
  - Application of voluntary liquidation of business activities;
  - Certificate of tax unit on lack of tax and other mandatory payment related arrears. Tax administration shall issue the Certificate no later than two working days after application of individual entrepreneur, and if tax and other mandatory arrears are available – no later than two working days after their repayment;
  - Seals and stamps, if any;
  - Originals of all licenses (permissions) if any;
  - Certificate of official registration; and
  - Letter on non-availability of bank accounts.

In this case, no later than the next working day after receipt of documents, the Inspectorate shall send a request to relevant local tax unit to confirm the non-availability of bank account, and in case of voluntary liquidation for incorporated business – also to confirm that no financial and economic activity was performed from the moment of its official registration.

297. Within two working days (three days – if businesses are liquidated not involved in any financial and economic activities and not formed their statutory funds within legally established timelines) after receipt of all documents listed in Items 295 and 296 hereby, the Inspectorate shall make an entry in the State Ledger on business liquidation or, if documents are not presented fully, reject in making the entry therein.

The decision of the Inspectorate shall be issued or mailed to the applicant within one working day after it is made. Herewith in case of rejection all received documents, seals, and stamps shall be returned to the applicant at the same time.

298. The Inspectorate, within one week after record in the State Ledger:

- On voluntary liquidation of incorporated business involved in financial and economic activities:
  - Shall inform tax and statistics units about the liquidation;
  - Shall surrender seals and stamps of to police unit for further destruction;
  - Shall transfer licenses and permissions of liquidated business entity to issuing authorities (if any); and
  - Shall inform the relevant branch of the People’s Bank on liquidation;

- On voluntary liquidation of incorporated business not involved in financial and economic activities:
  - Shall inform tax and statistics units about the liquidation;
  - Shall surrender seals and stamps to police unit for further destruction; and
  - Shall inform the relevant branch of the People’s Bank on liquidation; and
– On voluntary liquidation of unincorporated business:
  • Shall inform tax unit about the decision to terminate the activities of operational incorporated business;
  • Shall surrender seals and stamps of terminated business to the police for further destruction (if any); and
  • Shall transfer licenses and permissions if any to issuing authorities.

29. If businesses are liquidated not involved in any financial and economic activities and not formed their statutory funds within legally established timelines, the Inspectorate within three days shall:
  – Decide on exclusion thereof from the State Ledger of Legal Entities as a result of liquidation;
  – Make a relevant entry in the State Ledger of Legal Entities; and
  – Circulate the letters of advice to the Pension Fund, Employment Promotion Fund, and statistics and tax units, which must take the business off the books.

If unincorporated business is suspended, the Inspectorate within one working day after making a relevant entry in the Ledger shall submit to relevant tax unit the due information on suspension of business activities thereof.

30. In accordance with Article 44 of the Civil Code, the State Ledger of Business Entities shall be open to the general public. The Inspectorate must issue to all concerned entities the data (extract) on business entities from the State Ledger.