

# *Armenia Pocket Tax Book*

2011 edition



Legal Disclaimer: The information in this book is based on taxation law, legislative proposals and current practice, up to and including measures passed into law as of 1 September 2011. It is intended to provide a general guide only on the subject matter and is necessarily in a condensed form. It should not be regarded as a basis for ascertaining the tax or any other regulatory liability in specific circumstances. Professional advice should always be taken before acting in any information in the guide. No liability is accepted by PricewaterhouseCoopers or the State Revenue Committee for acts or omissions taken in reliance upon the contents of this publication.

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# ***Armenia pocket tax book 2011 edition***

## **A summary of Armenian tax legislation**

Dear Readers

The State Revenue Committee is currently involved in active reform to create a more transparent and effective tax and customs administration.

We are often asked for summaries on Armenian taxes written in English. We are pleased to have cooperated with PwC to provide the second edition of the pocket tax book on Armenian taxes. We trust that this publication will help to develop the bridge between the tax and customs authorities and the business community.



**Gagik Khachatryan**  
Chairman  
State Revenue Committee



**Altaf Tapia**  
Managing Partner  
PwC Armenia

Effective tax administration requires effective cooperation between tax officials, tax advisers and tax policymakers. We are pleased, therefore, to have this opportunity to continue to cooperate with the Armenian State Revenue Committee in providing this pocket tax book on Armenian taxes in the English language.

PwC ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders.

More than 161,000 people in 154 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice. Armenia is a valued part of our network.

# Armenia

**Official name:** Republic of Armenia (Armenia).

**Local name:** Hayastani Hanrapetoutyun (Hayastan).

**Location & Size:** Armenia is located between Asia and Europe and occupies a land area of 29,800 sq km. It neighbours Turkey to the west, Azerbaijan to the east, Georgia to the north and Iran to the south.



**Government:** The President is the head of State. Executive power is exercised by the Government, composed of the Prime Minister and Ministers. Legislative Power is exercised by a single-chambered National Assembly, consisting of 131 deputies.

**Language:** Armenian, which has its own script, the Armenian alphabet (աբգդեզըթժիլխծկհղճմյնշնչպջռսվտրցուփքևօֆ).

**Population:** 3.2 million.

**Capital:** Yerevan, 1.1 million.

**Coat of Arms:** The centre shield represents Mount Ararat with Noah's Ark, along with the coats of arms of the four royal dynasties of the historical Armenia: Bagratunides (top left), Arshakounides (top right), Artashesides (bottom left) and Rubenides (bottom right). The shield is upheld by an eagle and a lion, which are ancient Armenian symbols dating from the first Armenian kingdoms that existed before Christ



The sword represents the power and strength of the nation, breaking the chains of oppression. The broken chain represents effort shown by the nation to gain freedom and independence. The wheat ears represent the hard working nature of the Armenian people. The feather represents the intellectual and cultural heritage of the Armenian people. The ribbon represents the colours of the flag.

The main colour of the Coat of Arms is gold. The colours on the shield (red, blue and orange) are the colours of the national flag.

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## *Direction of tax reform*

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# ***Tax reforms***

Generally, the Armenian tax system is fairly coherent and easy to follow. However, ongoing concerns about low tax collection rates, corruption and high tax evasion affect the tax administration's approach to implementing the law and the nature of the government's tax reform initiatives. Consequently, compliant taxpayers may need to invest significant time dealing with the administrative challenges in the system.

The overall tax rate in Armenia is moderate. The World Bank study, *Paying Taxes 2011: The global picture*, ranked Armenia 159th out of 183 countries.

## **Tax administration reform**

An initiative has been underway since 2008 to create a more efficient and transparent tax administration. In August 2008, the State Tax Service and the State Customs Committee were merged into a new State Revenue Committee. The tax administration reform initiative is continuing in the merged agency. The goals for 2011-2013 reforms are to:

- Increase the number and volume of electronic services provided by the tax authorities and expand electronic reporting system for voluntary payment (self assessment) of taxes.
- Inform business community about the developments of tax administration.
- Make structural reforms and improvements in higher and local tax bodies.
- Improve tax legislation based on the best international practice.
- Improve the quality of the services to taxpayers by enhancing the system of electronic governance.
- Ensure transition from general tax audit practice into risk-based targeting audit.
- Improve the quality of human resources in tax authorities.
- Combat against tax deceptions and tax evasion.
- Enhance trust and transparency and improve collaboration with media.



## Direction of tax reform

One development arising from the initiative was the introduction of pre-numbered tax invoices and in particular, issuance of the tax invoices electronically by VAT taxpayers. Another outcome of the tax reform was reduction of the number and frequency of submission of tax returns and payments to tax authorities starting from January 2011.

### Private and public sector cooperation

Cooperation between the private and public sectors remains at a relatively early stage of development.

For the public sector, low collection rates and high tax evasion have prompted the introduction of some strong control measures in efforts to allow the tax authorities better manage the system. The business community accepts that strong measures may be justified to address the government's concerns. However, it believes that greater consultation and transparency in the policy development process could result in more effective and better targeted laws that achieve the government's aims while not imposing onerous compliance costs on taxpayers.

There is room for improvement in private and public sector cooperation. However, the relationship between policymakers and the business community are better than they were 2-3 years ago. This publication is also an indication that cooperation can be achieved.

## Direction of tax reform

### Personal income tax

Standard rate .....	10% / 20%
Special rates	
Royalties, interest, income from the sale or lease of property.....	10%
Dividends.....	0%
Payments to unregistered individuals.....	11%

### Social security contributions (monthly)

Employees.....	3%
Employers	
Income below AMD 20,000.....	AMD 7,000
Income from AMD 20,000 – 100,000.....	AMD 7,000 + 15%
Income above AMD 100,000.....	AMD 19,000 + 5%

### Corporate profit tax

Standard rate .....	20%
Non-residents	
Insurance, reinsurance, and transportation.....	5%
Other income from Armenian sources.....	10%

### Value-added tax

Standard rates.....	0% / 20%
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### Customs duties

Standard rates.....	0% / 10%
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## *Individuals*

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# ***Taxation of individuals***

## **Personal income tax**

### *General principles*

- Armenia taxes resident individuals on their worldwide income. Non-resident individuals are taxed only on their Armenian-source income.
- The top personal tax rate is 20%, and applied to taxable income exceeding AMD 80,000 (approximately USD 220) per month.
- The tax year is the calendar year.

### *Tax residence*

- Individuals are tax resident in Armenia if:
  - They have been physically present for 183 days or more in any consecutive twelve-month period commencing or ending in the tax year.
  - Their centre of vital interests is in Armenia.
  - They are in the civil service of Armenia.
- Individuals who do not meet these conditions are non-residents.

### *Tax rates for residents*

- Income from royalties, interest, and the sale or lease of property is subject to 10% tax.
  - If the income is paid by a tax agent (i.e., legal entity, individual entrepreneur), the tax should be withheld at source.
  - If the income is not paid by a tax agent, the individual should account for tax by declaring the income in an annual tax return.
- Employment income paid by a tax agent is subject to final withholding on a monthly basis.
  - The first AMD 80,000 (approximately USD 220) per month of taxable income is taxed at 10%.

# Individuals

- The excess is taxed at 20%.
- Other income not received from tax agents is taxed on an annual basis:
  - The first AMD 960,000 (approximately USD 2,640) per year of taxable income is taxed at 10%.
  - The excess is taxed at 20%.

## Case 1: Residence

### Background information

A foreign citizen arrived in Armenia on 1 May 2010 and was in Armenia for the following periods.

- 1 May 2010 until 30 September 2010 (153 days).
- 15 December 2010 until 1 February 2011 (48 days).

### Assessment of residence

By the end of 2010, the foreigner has stayed in Armenia less than 183 days ( $153+16=169$ ), so for 2010 he will not be considered as a resident.

From 1 January 2011 until 1 February 2011 he will be considered as a resident, as he was in Armenia more than 183 days during the 12-month period from 1

February 2010 until 1 February 2011 ( $153+16+31=200$ ).

*(Adapted from The Table Book of Taxpayers, Chapter 1.3.2.1, Example 1, published by the former State Tax Service).*

### Tax rates for non-residents

- Income earned by non-residents from sources in Armenia is generally taxed at the same rate as income derived by residents.
  - Employment income has an Armenian source if it is paid through an Armenian payroll, regardless of where the employment is exercised.
  - Employment income does not have an Armenian source if it is paid through foreign payroll, even if it is related to employment performed in Armenia.
- Relief from Armenian tax may be available under a relevant tax treaty.

### Employment income

- All income received or credited from employment in monetary form or in kind during a calendar year is subject to personal income tax.

# Individuals

- Medical insurance provided by an employer to its employee constitutes taxable income to the employee to the extent that the cost of the medical insurance exceeds AMD 10,000 per month.

## *Entrepreneurial income*

- Income from independent activities is subject to the standard rates, unless the individual is covered by the presumptive tax rules.
- Documented expenses incurred directly and exclusively for the purpose of generating business income are deductible.

## *Rental income*

- Gross revenues from property leases are subject to 10% tax.
- No deductions are permitted in determining taxable income.

## *Dividend income*

- Dividends are deducted from the gross income.

## *Interest income*

- Other interest income is subject to 10% tax.

## *Royalties*

- Royalties are subject to 10% tax.

## *Capital gains*

- Gains from the sale or exchange of shares or securities are deducted from the gross income.
- The tax treatment of dispositions of other property depends on the tax status of the purchaser.
  - If the purchaser is a legal entity or an individual entrepreneur, a 10% tax should be withheld from the gross sale price.
  - In other cases, the income is exempt from tax.

# Individuals

## *Prizes and winnings*

- Income in the form of prizes (other than cash prizes from the state lottery) and winnings in excess of AMD 10,000 (approximately USD 27) per payment is taxed at the standard tax rates.

## *Exempt income*

- In addition to the exemptions indicated above, the following are the main items of income that are exempt from taxation:
  - State benefits, with the exception of benefits for temporary work disability.
  - Pensions, with the exception of pensions paid within voluntary funded pension system.
  - Alimony.
  - Property and cash received as an inheritance.

Insurance compensation, with the exception of compensations to be received in the established manner at the expense of contributions paid by the taxpayer on his/her own and/or by a third person (including employer) on voluntary funded pension insurance terms and conditions.

## Case 2: Personal income taxation

### Background information

During the tax year (the same as a calendar year) of 2011 a resident Armenian individual, who is married and has two dependant children, received the following income from a source in Armenia: base salary of AMD 600,000 per month, taxable net benefit from employer-paid medical insurance plan in the amount of AMD 160,000 per year, net bank interest and dividend income in the amounts of AMD 27,000 and AMD 15,000 respectively, rent income from an apartment rented to an individual in the amount of AMD 1,800,000.

### Calculation of annual income taxable in Armenia (tax base)

	AMD	Notes
Base salary	7,200,000	
Less: Personal deduction	390,000	(a)
Less: Social security contributions	<u>216,000</u>	(b)
Taxable base salary	6,594,000	
Medical insurance paid by the employer	<u>50,000</u>	(c)
Total employment income	6,644,000	
Interest	30,000	(d)
Dividends	0	(e)
Rent income	<u>1,800,000</u>	(f)
Total gross annual income taxable in Armenia	8,474,000	

#### Notes:

- The resident Armenian individual is entitled to a personal deduction of AMD 32,500 per month. No marital status, dependency or other type of allowance is taken into consideration when calculating the taxable income of an individual.
- The individual is also entitled to a deduction for social security contributions (3% of gross income).
- The net taxable employment benefit on the health insurance is AMD 40,000 (i.e.,  $160,000 - 10,000 \times 12$ ). To arrive at the gross benefit of AMD 50,000 the net benefit is grossed up for the personal income tax rate applied to employment income ( $40,000 / (100\% - 20\%) = 50,000$ ).
- Net interest income amounted to AMD 27,000. As this type of income is taxed (withheld) at the source of payment in Armenia at a 10% rate, the net amount is grossed up by 10% to arrive at the gross income of AMD 30,000 ( $27,000 / (100\% - 10\%) = 30,000$ ).
- Dividends are deductible income, i.e., exempt from tax.
- Rent income from an individual is not taxed at the source of payment.



## Individuals

### Calculation of personal income tax

	Tax base AMD	Tax rate	Tax amount AMD	Notes
Employment income	6,644,000	0%-20%	1,232,800	(g)
Interest income	30,000	10%	3,000	(h)
Rent income <u>1,800,000</u>	10%		<u>180,000</u>	(i)
Total taxable income and personal income tax	<u>8,474,000</u>		1,415,800	
Personal income tax withheld at source			<u>1,235,800</u>	(j)
Income tax payable by the individual			<u>180,000</u>	

#### Notes:

- Monthly taxable income after deducting a personal exemption of AMD 32,500 and employee social security contributions of AMD 18,000 ( $\text{AMD } 600,000 \times 3\%$ ) is AMD 549,500. The tax on this income is AMD 101,900 ( $\text{AMD } 80,000 \times 10\% + \text{AMD } 469,500 \times 20\%$ ). The annual tax on employment income is AMD 1,232,800 ( $\text{AMD } 101,900 \times 12 + \text{AMD } 10,000$  on the health insurance benefit).
- Interest income is taxed at the source of payment in Armenia by 10% flat rate. No further taxation applies to net interest income received by an individual.
- Rent income received by an individual is taxed at 10%. Tax is declared and paid by the individual.
- Total tax withheld is AMD 1,232,800 on employment income and AMD 3,000 on interest income.

### Personal tax deductions

- Taxable income is reduced by the amount of mandatory employee contributions for social security.
- A taxpayer may deduct the amount of contributions to religious, public and other non-profit organizations, up to a maximum of 5% of taxable income.

Taxpayer may deduct compensations to be received from the contributions made by the taxpayer on his/her own and/or by a third person (including employer) on voluntary funded pension insurance system, up to a maximum 5% of taxpayer's gross income. An individual is entitled to a personal allowance deduction of AMD 32,500 (approximately USD 90) for each month income is received.

- Armenian citizens receive the benefit of the personal allowance when their income is calculated each month. They may also benefit from multiple allowances from multiple employers.

# Individuals

- Foreign nationals may claim the personal allowance only when they file a tax return.

## *Tax credits*

- Tax residents are allowed to credit foreign taxes paid on income received abroad against their Armenian tax liabilities.
- The amount of foreign tax credit is limited to the amount of Armenian tax that would arise from the equivalent income in Armenia.

## *Tax registration of foreigners*

- There is no tax registration requirement for individuals unless they are private entrepreneurs or they perform transactions subject to VAT (e.g., sale of a car that has been owned for less than one year for the second time during a tax year).

## *Withholding tax*

- Any income payment by a tax agent (resident legal entity, individual entrepreneur or permanent establishment of a non-resident legal entity) to an individual is subject to withholding, unless exempt under the treaty.
- For payments to individuals for services (other than as an employee):
  - No withholding is required if the parties have signed a contract that indicates the individual's TIN, passport data, domicile in Armenia and the number of the state registration certificate issued when business activity commenced.
  - If the contractual requirement is not met, payments from commercial organisations and individual entrepreneurs to the individual are subject to 11% withholding tax.
- Withholding tax from payments to individuals must be transferred to the State Budget by the 20th day of the following month.

## *Tax return and tax liability*

- An annual personal tax return must be filed by:
  - Individuals receiving income from an Armenian source and whose income is not fully taxed at the source of payment.
  - Foreign nationals who are tax resident in Armenia.
- The tax returns must be filed by 15 April of the following year.
- Any corresponding payment must be made by 1 May.

## Individuals

- Individual entrepreneurs are required to make advance four tax payments in equal instalments:
  - The payments must be made by the 15th day of the last month of each quarter.
  - Each advance payment is equal to 1/6th of the income tax paid for the previous year.
  - For payments before the previous year's tax is calculated (i.e., March), the tax payable is the same as the amount of advance payment that had been made for the previous quarter.
  - If advance payments exceed the income tax liability for the year, the excess may be refunded.
  - Any residual liability must be paid before 1 May of the following year.
- Advance payments are not required if a taxpayer's income tax for the proceeding year was less than AMD 500,000 (approximately USD 1,375) or the taxpayer was not a VAT payer in the preceding year or taxpayer incurred loss in preceding year. Thus, new entrepreneurs do not need to make advance payments until 15 June of the year following the start of operations.
- Armenia also has a quarterly minimum income tax.
- If the advance income tax payable is less than 1.0% of revenues for the previous month, less depreciation charges (up to a maximum of 50% of revenues) if the taxpayer is a VAT taxpayer, the excess is paid as a minimum income tax.
- The minimum income tax is applied against income tax payable for the year.
- Any excess is applied against the income tax liability for the subsequent year.

### *Declaration of income and net worth*

- Tax residents must file a declaration of income and net worth by 15 April of the following year if any of the following conditions are met:
- They have income for a year (including exempt income) exceeding AMD 8 million (approximately USD 22,000).
- They were involved in real estate transactions with a total value exceeding AMD 50 million (approximately USD 137,500).
- They were involved in movable property transactions with total value exceeding AMD 8 million.
- They received or repaid loans in amounts exceeding AMD 8 million.

## Individuals

- If a declaration is not filed or an incorrect declaration is filed, the main penalty is a 10% charge on the amount of untaxed income that is not reported if the taxpayer cannot prove the source of that income.
- Administrative penalties for non-compliance apply only if a declaration is not filed, the tax authorities issue a warning, and the taxpayer then fails to file the declaration within 30 days.

### *Foreign personnel*

#### Visas

- Currently, nationals of Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine and Uzbekistan may enter under a visa waiver program. Nationals of Serbia and Montenegro may also enter under the visa waiver program if they have an invitation letter.
- Nationals from all other countries require visas to enter Armenia.
  - In most cases, the easiest way to do this is to purchase a 120-day visitor visa at the border crossing point for AMD 15,000 (approximately USD 40).
  - Nationals of Afghanistan, Bangladesh, Cameroon, China (but not the Hong Kong and Macao Special Administrative Regions), Egypt, India, Iraq, Niger, Nigeria, Pakistan, Palestine, Saudi Arabia, Somalia, Sri Lanka, Sudan, Syria and Vietnam require an invitation letter to obtain a visa for Armenia, and may obtain a visa only from an Armenian diplomatic mission or consular post.

#### Registration and residence permit

- Foreign nationals staying in Armenia for more than three months without leaving the country have to register with the appropriate departments of the Police.
- Foreign nationals remaining in Armenia for longer periods may apply for a temporary residence certificate.
  - The process takes around six weeks to complete and is subject to a fee of AMD 105,000 (approximately USD 290).
  - Currently, the foreign national should not need to surrender his or her passport while the application is being processed.
  - The individual will not need a visa to enter Armenia during the validity period of the residence certificate.

# Individuals

## Work permit

- Foreign nationals do not have to obtain special work permits to work in Armenia.
- The Law on Aliens contains a requirement that local employers obtain a work permit before entering into employment agreements with some foreign nationals.
  - Currently, the requisites to make this law effective are not yet in place.
  - If the law were to come into force, a temporary residence card would be sufficient basis for employment without a work permit.

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# Social security

## General

- The social security system in Armenia covers pensioners, workers and their dependents for work-related accidents, disability benefits, sickness and maternity benefits, and family allowances.
- Starting from 1 December 2010 mandatory contributions to Armenian social security apply both to Armenian and foreign nationals.
- The taxable base for contributions (both employee and employer) is not capped.

## Employees' contributions

- Both Armenian national and foreign employees make contributions of 3%. This amount is withheld at source by the employer and is deductible for employees to arrive at taxable income.

## Employers' contributions

- Employers are required to make monthly social security contributions at the following rates:

Gross salary (AMD per month)	Contribution
Up to AMD 20,000	AMD 7,000
AMD 20,000 –100,000	AMD 7,000, plus 15% of the amount exceeding AMD 20,000
AMD 100,000 upwards	AMD 19,000, plus 5% of the amount exceeding AMD 100,000

- Payments for social security must be made by the 20th day of the following month.

## Social security

- Employers must submit quarterly returns on social payments for the reporting quarter by the 20th day of the first month following the quarter.

### *Contributions for individual entrepreneurs*

- Individual entrepreneurs are required to pay a minimum social security payment of AMD 5,000 (approximately USD 14) per month, by the 15th day of the following month.
- On an annual basis, for VAT taxpayers the first AMD 1.2 million (approximately USD 3,300) of gross income less deductions as per the income tax law (except the personal deduction) is subject to a 15% contribution, subject to a minimum contribution of AMD 60,000 (approximately USD 165), and the excess is taxable at 5%.
- A lower rate of 3% applies to entrepreneurs who are non-VAT taxpayers or subject to presumptive tax (subject still to a minimum contribution of AMD 60,000 (USD 165)).

### *Penalties for non-compliance*

- Penalties for non-compliance include:
- Failing to submit on time a declaration, return, or other document required by law is subject to a penalty of between AMD 10,000 and AMD 20,000 (approximately USD 27 to USD 54). If a return is filed more than two months late, a penalty of 5% of the amount of contributions not paid as a result of late filing is imposed for each 15 days of delay, up to a maximum penalty of 100%.
- Failing to pay mandatory social insurance contributions on time is subject to a penalty of between AMD 10,000 and AMD 20,000. In addition, the payer is liable to a fine equal to 0.15% of the amount overdue for each day of delay, up to a maximum of 365 days.
- If during an audit the tax authorities determine that the tax liability shown in the taxpayer's return is understated, they will impose penalties of 50% of the tax assessed. A repeat offence within one year is subject to a 100% penalty.
- If the authorities identify that an employee has not been properly registered (i.e., no written order and/or written employment contract), a special social security contribution of AMD 60,000 (approximately USD 165) must be made.

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## *Companies*



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# ***Taxation of companies***

## **Corporate income tax**

### *General principles*

- The standard corporate tax rate is 20%.
- The reporting year for companies follows the calendar year.

### *Entities subject to corporate income tax*

- Resident entities are liable to Armenian tax on their worldwide income. Foreign taxes should be available for credit against Armenian tax liabilities, up to the amount of Armenian tax payable on the foreign income.
- Non-resident entities are subject to Armenian tax only on income that has a source in Armenia.
- Resident entities are legal and business entities whose personality or existence is established under Armenian law. Non-resident entities are those whose existence is established under foreign law.

### *Tax base*

- Taxable profits are defined to be the positive difference between a taxpayer's gross income and deductible expenses.
  - Gross income encompasses all revenues received by a taxpayer from all economic activities, unless the revenues are expressly exempted under the law.
  - Deductible expenses encompass all necessary and documented expenses that are directly related to conducting business or earning profit, unless a specific provision in the law restricts the deduction.

### *Accounting rules*

- Income should be recognised using the accrual method:
  - Income should be recognised when an unconditional right to receive the income exists, or when a taxpayer has fulfilled all of the obligations for a transaction or contract.

## Companies

- Income from services should be recognised when the provision of services is complete.
- Expenses should be recognised on an accrual basis. Expenses are matched to the sales to which they relate.

### *Exemptions*

- Taxpayers engaged in agricultural production are exempt from tax on that income.
- Taxpayers exploiting the free economic zone in Armenia are exempt from tax on that income.
- Dividends derived by an Armenian entity from another Armenian entity are exempt from tax.

### *Incentives*

- To encourage development voluntary funded pension system, from 1 January 2011, when determining the taxable profit, taxpayer is entitled to reduce the gross income in the amount of 50% of voluntary funded pension contributions made by taxpayer for each employee, but not greater than 2.5% of employee's salary.
- To encourage development of the Armenian capital market, Parliament enacted a law in June 2009 that will reduce the profit tax burden of listed companies by up to AMD 300 million (approximately USD 825,400) per year from 2009 to 2012.
- The incentive applies to resident companies (other than with regulated prices) listed on the Armenian Stock Exchange with at least 20% of their shares publicly held by 100 or more shareholders.
- Provided such companies prepare and publish their financial statements under International Financial Reporting Standards (IFRS), they will be entitled to a 50% reduction in their profit tax (up to a maximum of AMD 300 million per year).

# Companies

## Deductions

### *Tax-deductible items*

- Properly documented expenses that are necessarily incurred in the furtherance of a taxpayer's business activities should be deductible, unless a specific provision in the law says otherwise (refer below).

### *Tax non-deductible items*

- The following are the main items that are not deductible for corporate income tax purposes:
  - Expenses exceeding AMD 3 million (approximately USD 8,250) per month and AMD 300 thousands (approximately USD 825) per transaction that are not supported by relevant documents.
  - Expenses incurred for advertising outside Armenia are limited to the greater of 3% of gross income or 20% of the value of services or goods exported from Armenia.
  - Training of staff outside Armenia is limited to the lesser of 4% of the gross income of the reporting year or AMD 3 million (approximately USD 8,250) per employee.
  - Expenses for foreign trips are limited to 5% of the gross income of the reporting year.
  - Representative expenses are limited to the lesser of 0.5% of the gross income of the reporting year or AMD 5 million (approximately USD 13,750).
  - Voluntary funded pension contributions made by employers for an employee are limited to 5% of salary of an employee.

### *Interest*

- As a general rule interest will be deductible if the related debt is used to fund business activities of the taxpayer. The maximum deductible interest rate is currently 24%.
- Armenia does not have thin capitalisation rules.

### *Royalties and service fees*

- Royalties and service fees are deductible payments.

## Companies

### *Bad and doubtful debts*

- A taxpayer is entitled to deduct bad debts if the taxpayer creates a reserve and allocates the amount of bad debt in the following proportions:
  - Up to 90 days from the due date 0%
  - From 91 to 180 days from the due date 25%
  - From 181 to 270 days from the due date 50%
  - From 271 to 365 days from the due date 75%
- Beyond 365 days, bad debts of less than AMD 100,000 may be deducted. For larger debts, the company would need to have pursued the debt through the courts before a deduction may be taken.

### *Employee remuneration*

- Employee remuneration is deductible.
- Expenses relating to providing employees with uniforms, safety clothes and shoes, and food are non-deductible if the amount exceeds norms established by the Government.

### *Other deductions*

- Expenses incurred in the repair and maintenance of a fixed asset are deductible, unless the expense improves the condition of the fixed asset. The deduction is limited to 10% of the cost of the asset. Any excess is capitalised and included in the base for depreciation purposes.
- Taxable income is reduced by the amount of mandatory employer contributions for social security.
- Expenses incurred on preparatory, drafting and research activities, and geological research for the extraction of natural resources should be capitalised and amortised over their useful life (or over a minimum of 10 years if their useful life cannot be determined).
- Expenses on scientific research, experiments and design may be deducted at the time incurred.
- Charitable donations and contributions to non-profit organisations are deductible in amounts up to 0.25% of gross income.
- Armenian taxes, other than income tax, are generally deductible. Revenues and expenses are determined net of VAT.

# Companies

- Realised foreign exchange gains are taxable and realised losses are deductible.

## Special rules

### *Leasing*

- Lease payments on operating leases are deductible. The lessor would claim a deduction for depreciation of the leased assets.
- Financial leasing is treated for tax purposes as if a sale had been made.
  - The lessee would include the value of the property in the relevant group of fixed assets and claim depreciation charges.
  - The lessee would also deduct the interest and commission elements of the lease payments in the period in which they are payable.
  - The lessor would recognize taxable income for the total principal amount of the lease at the time when the asset is transferred, and would recognise the interest and commission element of the payments over the term of the lease.

### *Related party transactions*

- The tax authorities may adjust prices for tax purposes when the value of a transaction between related parties differs from the market price.
- Currently, there are no detailed transfer pricing instructions or guidelines, and the rules have limited application in practice.

### *Tax losses*

Resident companies are entitled to carry forward losses to the five subsequent income years.

## Depreciation

### *Depreciation of tangible assets*

Fixed assets are required to be depreciated using the straight-line method. The minimum periods for depreciating fixed assets are:

## Companies

Description of assets	Minimum depreciation period
Other industrial and commercial buildings, constructions and transmission devices	20 years
Hotels, resorts, rest houses, educational institutions	10 years
Robot equipment and assembly lines	3 years
Calculating devices and computers	1 year
Fixed assets with the value up to AMD 50,000	1 year
Industrial and commercial buildings, constructions and transmission devices located in a designated disaster area (currently Gyumri)	1 year
Other fixed assets	5 years

- Land may not be depreciated.

### *Depreciation of intangible assets*

- Intangible assets may be amortised using the straight-line method over the lesser of the asset's useful economic life or ten years.

# Companies

## Corporate income tax for foreign entities

### *General principles*

- Foreign entities are liable to Armenian tax only on income from sources in Armenia. In broad terms, income will have a source in Armenia if:
  - The income arises from activities performed or property located in Armenia.
  - In the case of passive income (e.g., dividends, interest, royalties), financial services and insurance services, the income is paid by a resident of Armenia.
- Based on the law, income from administrative and consultation services provided to Armenian residents has a source in Armenia only if it is derived from activities the foreign entity performs in Armenia. In practice, the tax authorities interpret the law more narrowly.

### *Permanent establishment*

- The domestic definition for a permanent establishment essentially adopts the definition for permanent establishment found in the OECD Model Tax Convention.
- When a foreign company conducts business in Armenia through a permanent establishment and maintains separate accounting records for that permanent establishment, taxable income should be determined on the same basis as for domestic entities.
  - The Law on Profit Tax indicates that a permanent establishment is taxable on dividends received from Armenian companies and may not carry forward losses, which differs from the treatment of domestic entities.
  - It may be able to overcome this restriction under a relevant tax treaty.
- If it is not possible to determine taxable profit based on the "direct" method (taxable income less deductible expenses), income would be determined based on a method agreed between the taxpayer and the tax authorities. The law explicitly recognises the allocation method (the taxpayer pays taxes based on the head office's profit, allocated based on either income or expenses or number of employees) as a possible approach.
- Armenia has no special tax rules for non-commercial representative offices established to engage in liaison type activities.
- Such offices are subject to the normal corporate income tax.

## Companies

- An exemption from income tax may be available under a relevant tax treaty if the activities of the representative office are not sufficient to constitute a permanent establishment for the foreign entity.

### Withholding and similar obligations

- Employers are required to withhold personal income tax at source on a monthly basis from their employees' salaries:
  - The taxes are remitted to the state budget not later than the 20th day of the following month.
  - A personal income tax return should be submitted quarterly not later than the first day of the second month of following the quarter.
- Resident entities, branches and representative offices of foreign entities and individual entrepreneurs are required to withhold income tax at source on payments to non-residents:
  - The taxes are required to be transferred to the budget not later than the 20th day of the month following the payment of income.
  - A withholding tax return should be submitted annually not later than 20 February of the following year.
- Withholding tax rates for non-residents may be reduced under a relevant tax treaty.
  - To apply the treaty provisions taxpayers are required to hold a certificate of residency issued by the foreign tax authorities.



## Case 3: Corporate Income Tax

### Background information

The income and expenses for an Armenian company for the 2011 tax year (the same as a calendar year) are: trading income – AMD 110,000,000; gross interest income from Armenian company – AMD 200,000; dividend income from its Armenian subsidiary – AMD 3,500,000; salary expenses – AMD 25,000,000; raw materials expenses – AMD 35,000,000; fuel and utilities expenses – AMD 10,000,000; representative expenses – AMD 6,000,000; accounting depreciation expenses – AMD 8,670,000; tax depreciation expenses – AMD 5,700,000; tax interest and penalty expenses – AMD 180,760; property tax expenses – AMD 700,000.

A machine was repaired for AMD 560,000; the original cost of the machine was AMD 4,000,000.

The tax loss for 2010 was AMD 3,000,000.

### Calculation of annual income taxable in Armenia

	AMD	AMD	Notes
Gross income			
Trading income	110,000,000		
Interest income	200,000		
Dividend income	<u>3,500,000</u>		(a)
Total gross income		113,700,000	
Deductible expenses			
Salary expenses	25,000,000		
Raw materials expenses	35,000,000		
Fuel utilities expenses	10,000,000		
Representative expenses	5,000,000		(b)
Depreciation expenses	5,700,000		(c)
Interest and penalty expenses		0	(d)
Property tax expenses	700,000		
Capital repair expenses	<u>400,000</u>		(e)
Total deductible expenses		<u>81,800,000</u>	
Deductible income			
Dividend income	<u>3,500,000</u>		(a)
Total deductible income		<u>3,500,000</u>	
Net income		28,400,000	
Losses carried forward		<u>3,000,000</u>	
Taxable income		<u>25,400,000</u>	
Corporate income tax		5,080,000	

# Companies

## Notes:

- (a) Dividends paid between Armenian companies are taxable and deductible at the same time, i.e., effectively exempt from Armenian tax.
- (b) Deductible representative expenses are limited to the lesser of 0.5% of the gross income of the reporting year (i.e.  $\text{AMD } 110,200,000 * 0.5\% = 5,510,000$ ) or AMD 5 million, i.e. AMD 5 million.
- (c) Only tax depreciation may be deducted for corporate income tax purposes, therefore, AMD 5,700,000 is allowed as an expense.
- (d) Interest and penalty expenses are not deductible for corporate income tax purposes.
- (e) Repair expenses are deductible up to 10% of the original cost of the asset, i.e., AMD 400,000 ( $4,000,000 * 10\% = 400,000$ ); the rest of the capital repair expense is added to the book value of the asset.

## Corporate tax compliance

### *Tax period*

- The reporting year for companies follows the calendar year.

### *Filing*

- The corporate income tax return (also referred to as the profit tax return) must be filed before 15 April of the following year.

### *Payment*

- Resident taxpayers are required to make advance profits tax payments by the 15<sup>th</sup> day of the last month of each reporting quarter.
- Each advance payment is equal to 1/6th of the profits tax paid for the previous year.
- For payments before the previous year's tax is calculated (e.g., January to March), tax is paid based on the last filed tax return, and an adjustment is made in the first advance tax payment made after the previous year's tax is calculated to correct the amount paid.
- If advance payments exceed the profits tax liability for the year, the excess may be refunded.

## Companies

- Any residual liability must be paid before 25 April of the following year.
- Advance payments are not required if a taxpayer's profit tax for the proceeding year was less than AMD 500,000 (approximately USD 1,375), the taxpayer was not a VAT payer in the preceding year or the taxpayer did not have taxable profit in the preceding year. Thus, newly established companies do not need to make advance payments until 25 April of the year following the start of operations.
- Armenia also has a quarterly minimum profits tax.
  - If the advance profits tax payable is less than 1.0% of revenues for the previous month less depreciation charges (up to a maximum of 50% of revenues), the excess is paid as a minimum profits tax.
  - The minimum profits tax is applied against profits tax payable for the year.
  - Any excess is applied against the profits tax liability for the subsequent year.
- Branches and representative offices of foreign companies pay advance profits tax bi-annually, but only if their profit for the proceeding year exceeded AMD 2 million (approximately USD 5,500).
  - Each advance payment is equal to 25% of the profits tax paid for the previous year.
  - The payments are due by 1 July and 31 December.
  - Branches are not subject to the minimum profits tax.
  - The annual tax return for branches is filed by 15 April of the following year.
  - The corresponding annual residual tax liability needs to be paid by 25 April of the year following the reporting year.

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## *Value-added tax*

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# ***Taxation of companies***

## **Overview of the value-added tax (VAT) system**

### *General principles*

- Unless there is an express exemption in the law, VAT applies to:
  - Supply of goods and services where the place of supply is in Armenia (including when supply is made without consideration).
  - Importation of goods into Armenia.
- The standard rate of VAT is 20%. The export of goods and the provision of some services to non-residents are zero-rated.
- Armenia uses the input-output model. VAT-registered persons account for output tax after deducting VAT paid on their inputs.
- The liability to account for output VAT on sales arises when goods or services are supplied. However, the corresponding input tax credit for the purchaser arises only when: (i) a VAT invoice is held; (ii) payment has been made for the goods or services; and (iii) if the invoice amount exceeds AMD 100,000 (approximately USD 275), the taxpayer has reported the invoice in its VAT information return, unless it is issued electronically.

### *VAT registration and deregistration*

- Except for taxpayers that elect to register voluntarily, the Armenian VAT rules do not explicitly contain the concept of a VAT-registered person.
  - Businesses with sales exceeding AMD 58.35 million (approximately USD 160,550) in the preceding calendar year are required to account for VAT on their sales in the subsequent calendar year. Total value (including VAT) of goods sold on the commission agency basis must also be included in determination of VAT threshold.
  - Businesses that require a license costing more than AMD 100,000 (approximately USD 275) to operate Businesses that produce or import products that are subject to excise tax are required to account for VAT on their sales.

## Value-added tax

- Other businesses are required to account for VAT on any sales in a calendar year in excess of AMD 58.35 million.
- Persons whose taxable turnover from the sale of imported goods under “importation for free circulation” customs regime for the purposes of commercial activities (sale) and included in the list approved by the law exceeds AMD 1 million at any moment of the reporting year. In this case the person will be considered as VAT taxpayer from the point when AMD 1 million threshold is exceeded until the end of the calendar year.
- Special rules exist that may require interrelated persons (mutual ownership in statutory capital, proportion of income or expenses related to one supplier or customer) to account for VAT because of the relationship.
- Taxpayers whose revenues are below the AMD 58.35 million threshold may voluntarily elect to account for VAT.

### *Administration*

- VAT on importation is administered by the customs authorities. All other aspects of VAT are administered by the tax authorities.
- A VAT invoice must include the following information:
  - Serial number and the date of issue.
  - Name, address and taxpayer's identification number (TIN) of the seller.
  - Name and address of the purchaser.
  - Denomination and quantity of goods, or the type and volume of services.
  - The price and the total value of goods or the tariff and the total amount of payments for services, excluding VAT.
  - The calculated amount of VAT (as a separate line).
- A VAT invoice may not be issued for transactions that are exempt or not subject to VAT. Special rules also apply concerning the preparation of invoices for zero rated sales.
- VAT invoices are restricted accounting documents. From 1 January 2011, new rules will apply for VAT payers when they issue tax invoices for sales subject to the standard 20% (or 16.67%) VAT rate. Tax invoices must be issued one of the following ways:

# Value-added tax

## Electronic tax invoices

- Online tax invoices can be issued with the use of special computer software available on the official web site of tax authorities and installed on local computers of taxpayers.
- Taxpayers can issue tax invoices by billing systems based on serial numbers received from tax authorities. Serial numbers are provided electronically by tax authorities based on the taxpayer's electronic application approved by electronic signature.

## *Paper tax invoices*

- VAT taxpayers can get invoice forms from tax authorities, based on their application and receipt of payment certifying that the amount for getting the invoice forms is paid to the treasury account.
- The forms are non-transferable and may not be duplicated.
- Penalties apply when tax invoices are issued in violation of prescribed rules, or when prescribed forms are acquired illegally or are used in duplicate form.
- The issuer of the tax invoice will be penalised in the amount of double the transaction value (including the VAT amount) for each affected invoice, subject to a minimum penalty of AMD 5 million (approximately USD 13,750) for each penalty assessment.
- Thus, if a taxpayer is found during review to have issued ten invoices:
  - A penalty of AMD 5 million would apply if the invoices have an aggregate transaction value of AMD 2 million (minimum penalty).
  - A penalty of AMD 10 million would apply if the invoices have an aggregate transaction value of AMD 5 million (double the transaction value).
- When a sale is made that involves the joint supply of taxable and exempt goods or services, the taxable and exempt portions are treated as separate transactions and must be documented separately.
- VAT payers are required to keep separate accounts for taxable and VAT-exempt sales and purchases. If it is not possible to keep separate accounts, the amount of VAT input tax credit for each reporting period should be calculated based on the proportion of taxable sales to total sales for that period.

## *Tax rates*

- The standard rate of VAT on domestic sales of goods and services and the importation of goods is 20%.

## Value-added tax

- The export of goods, the supply of services that are ancillary to the export of goods are zero-rated.
- Zero-rating also applies to:
  - The supply of international transport services (including transit through Armenia) and toll manufacturing services.
  - Advertising, consulting, engineering, legal, accounting, translation, data processing, banking, financial and insurance services provided to non residents, if the non-resident's place of business is outside Armenia.

### *Exempt transactions*

- A number of transactions are exempt from VAT under Armenian law. Some of the more common exemptions are:
  - Most financial operations and transactions carried out by banks and lending organisations. However, exemptions are defined with respect to specific transactions, so transactions must be reviewed individually to confirm whether an exemption applies.
  - Tuition for secondary, professional, and high schools. Education material such as music books, albums for drawing, children's and school literature, school educational publications, and scientific and research work.
  - Sales of veterinary medicines, chemicals used in agricultural production, fertilizers, and agricultural plants and seeds.
  - Services related to the care of children in preschool institutions, and the care of persons in boarding-schools, children's homes, institutions caring for disabled children and invalids, and nursing homes.
  - Sales of newspapers and magazines.
  - Insurance and reinsurance operations, as well as operations related to pension insurance, performed by insurance mediators and agents.
  - The supply of goods and services relating to the implementation of approved humanitarian assistance and charitable projects.
- The sale of ownership rights in an entity or business, as well as transactions for the reorganisation of an entity or business, is not subject to VAT.

### *Taxable amount*

- In most cases, the amount of VAT will be determined based on the transaction price for the supply of goods or services.



## Value-added tax

- If the “usual” (market) price exceeds the transaction price, the seller must account for output VAT based on the market price.
  - The law does not provide any guidance concerning how the usual price should be determined.
  - In practice, the rule is often used in relation to the sale of immovable property (as a basis for adjusting the cadastral value of the property), but it is unlikely otherwise that the issue will be raised in practice unless the sales price is clearly non-market.
- When goods and services are provided free of charge, the supplier is required to account for VAT based on the market value of the goods or services, unless the supply involves warranty services provided by a seller of goods, replacement of defective goods, or the supply of goods or rendering of services when the value of those goods or services were included in the original cost of goods supplied.
- The amount of VAT must be incorporated into the stated sales price (e.g., the shelf price for shop goods is inclusive of VAT).

### *VAT on importation*

- Unless expressly exempted under the law, imported goods are subject to 20% VAT during customs clearance.
- The taxable base is the customs value of the goods, plus the amount of any import duties and excise taxes (if any).
- The imposition of VAT by Customs is not affected by whether the importer is registered with the tax authorities.
- VAT is required to be paid within ten days of importation.
- Special rules apply to goods that were earlier exported from Armenia to be processed or repaired.
  - VAT is imposed based on the value of the service performed by the foreign party.
  - If it is not possible to determine the value of the service, VAT is imposed based on the difference between the customs value of the goods after processing or repair and their declared customs value when they were exported.
- VAT on the importation of certain goods may be deferred.
  - Deferral is available for goods under codes 8422 (except 842211000 and 842290100), 8441, 8452 (except 845210 and 845290000), 8453, 8475, 250510, 250900, 251820, 2836, 39162010, 76041090, 8419, 8426, 8429, 8430, 8435, 8443, 8478, 8479, 85023100 and 870410.

## Value-added tax

- A deferral of one year applies if the customs value of imported goods is less than AMD 70 million (approximately USD 192,600).
- A deferral of two years applies if the customs value of imported goods is AMD 70 million or more (approximately USD 192,600).
- A deferral of three years applies if the customs value of imported goods is AMD 300 million or more (approximately USD 825,450).
- When the goods are sold within the deferral period, the deferred VAT must be accounted for in the reporting period of sale. It would give rise to a corresponding input tax credit in the same period.

### *Tax period and payments*

- Generally, VAT payers should file VAT returns on a quarterly basis. However, taxpayers with sales (excluding VAT) in the previous calendar year exceeding AMD 100 million (approximately USD 275,100) are required to file VAT returns monthly.
- VAT payments must be made and VAT returns filed within 20 days following the end of the reporting period.
- A separate report with information on sales and purchase invoices exceeding AMD 100,000 (approximately USD 275) must be filed within 20 days following the end of the reporting period. If the report is not filed, the authorities will disallow input tax credits. Under the new rules, taxpayers will no longer have to submit information on tax invoices they issue and receive electronically, provided certain conditions are met.

### *VAT accounting rules (time of supply)*

- The VAT liability is calculated using the input-output method. The VAT liability in any accounting period will be the total amount of output tax charged on sales, less the input VAT paid relating to taxable sales.
- VAT is accounted for as follows:
- VAT on the sale of goods is accounted for when the goods are unloaded or delivered to the purchasers.
- VAT on the sale of services is accounted for when the services are rendered to the customers.

## Value-added tax

- The entitlement to an input tax credit for purchases arises on the date on which payment is made, provided the VAT invoice is obtained before the end of the reporting period. If the invoice is obtained late, the entitlement to an input tax credit arises when the invoice is received.
- The entitlement to an input tax credit for imported goods arises on the date of importation.

### *Reverse charge*

- Services supplied in Armenia by non-residents that are not registered in Armenia are subject to the application of a VAT reverse charge.
- To support a corresponding claim for an input tax credit, the recipient of the services must self-issue an invoice on behalf of the non-resident, and indicate their own identification number as the supplier of services.

### *Place of supply*

- The place of supply for goods is the place where the goods are located when they are sold. For goods that are to be delivered, the supply takes place where the goods are located when they are dispatched.
- The general rule is that services are supplied in the place where the supplier's business is located.
- Specific place of supply rules apply to the following services:
  - Services related to real estate are supplied in the place where the real estate is located.
  - Transportation services are supplied in the place where the transportation passengers or cargo originates.
  - Services related to culture, art, sport, science, education and public health, ancillary support for transportation, and the assessment or repair of movable property are supplied in the place where the services are performed.
  - The lease of transportation vehicles is supplied in the place where the lessor implements business activity, or if no such place exists, in the place of domicile or residence of the lessor.
  - Cross-border postal and telecommunications services are supplied in the country of destination.
- Special rules also apply to services related to the transfer of intellectual property rights, advertising, consulting, engineering, legal, accounting, expert,

## Value-added tax

translating, data processing, the provision of software and information, banking, financial and insurance services, and the lease of movable property (other than transportation vehicles). When such services are provided by a VAT payer to a non-resident, or by a non-resident to a VAT payer:

- They are supplied in the place where the recipient of the services implements business activity or has a permanent office (i.e., if the recipient has a permanent office in Armenia, the services are subject to VAT).
- If the recipient does not implement business activity and has no permanent office, the services are supplied in the place of residence of the recipient.

# Value-added tax

## Case 4: Creditable VAT and payable VAT

### Background information

During 2011, a VAT taxpayer carried out supply of goods and services (output operations) in the amounts of:

AMD 250,000,000	subject to 20% VAT (output VAT).
AMD 50,000,000	subject to 0% VAT.
AMD 100,000,000	exempted from VAT.

During the same period the VAT taxpayer purchased goods and services (input operations) with total VAT amount of AMD 30,000,000 (input VAT). This input VAT satisfied all the requirements for creditable VAT, except for as described in the section “Calculation of Creditable VAT” below.

The allocation of input VAT among output operations was:

AMD 12,000,000	input VAT corresponding to output operations taxed at 20% VAT.
AMD 5,000,000	input VAT corresponding to output operations taxed at 0% VAT.
AMD 9,000,000	input VAT corresponding to VAT exempted output operations.
AMD 4,000,000	input VAT that does not directly correspond to any of output operations (indirect input VAT).

### Calculation of creditable VAT

Input VAT corresponding to VAT taxable output operations can be credited. Thus input VAT in the amount of AMD 17,000,000 ( $12,000,000 + 5,000,000 = 17,000,000$ ) is creditable. By the same logic input VAT in the amount of AMD 9,000,000, corresponding to VAT exempted output operations cannot be credited.

For the indirect input VAT (that does not directly correspond to any of output operations), it must be allocated between creditable and non-creditable input VAT in proportion of values of VAT taxable and other output operations. This allocation is demonstrated below:

	AMD	Notes
Total output supply	400,000,000	(a)
VAT taxable output supply	300,000,000	(b)
Percentage of VAT taxable supply	75%	(c)
Total indirect input VAT	4,000,000	
Creditable indirect input VAT	3,000,000	(d)
Non-creditable indirect input VAT	1,000,000	(e)

## Value-added tax

Total creditable VAT for 2010 is AMD 20,000,000 (f) and non-creditable VAT is AMD 10,000,000 (g).

### Calculation of VAT payable

For 2011 output VAT is AMD 50,000,000 (h) and non-creditable input VAT is AMD 20,000,000. Thus, VAT payable for 2011 will be AMD 30,000,000 (i).

Notes:

- a)  $250,000,000 + 50,000,000 + 100,000,000$ .
- b)  $250,000,000 + 50,000,000$ .
- c)  $300,000,000 / 400,000,000$ .
- d)  $4,000,000 * 75\%$ .
- e)  $4,000,000 - 3,000,000$ .
- f)  $17,000,000 + 3,000,000$ .
- g)  $9,000,000 + 1,000,000$ .
- h)  $250,000,000 * 20\% + 50,000,000 * 0\%$ .
- i)  $50,000,000 - 20,000,000$ .

# Value-added tax

## *Refund of input VAT*

- As a general rule, when input tax for a reporting period exceeds output tax for the period, the excess input tax is carried forward and applied against VAT payable in future reporting periods.
- Refunds are permitted only for purchases and importations that are directly related to zero-rated transactions (other than the export of ferrous and non ferrous scrap). (Refunds are capped at 20% of zero-rated sales in the taxable period.
- According to the law, a refund should be issued within 90 days of the refund application.
  - When the government delays the VAT refund more than 90 days, taxpayer must receive fine equal to the refund amount not paid on a timely basis multiplied by bank interest rate defined by the CBA (recalculated on a daily basis) for each delay day.
  - It may be easier to have the excess credit applied against other tax liabilities, although confirming the entitlement to a credit may still be a challenge.

## *Input VAT*

- The general rules for VAT input tax credits are:
  - VAT paid on goods and services that will be used to make taxable sales may be claimed as an input tax credit.
  - VAT incurred to purchase or import goods and services that will be used to make sales that are VAT-exempt or not subject to VAT may not be claimed as a credit.
  - When goods and services will be used to make partly taxable and partly non taxable sales, the input tax credit is apportioned between the taxable and non taxable sales based on the proportion of taxable sales to total sales for each reporting period.
- A claim for input tax must be supported by a valid VAT invoice issued by a supplier or a duly executed import customs declaration. In addition:
  - For the purchase of goods or services, an input tax credit will generally only arise if payment is remitted through a bank and the goods or services are obtained for commercial purposes.

## Value-added tax

- For cash purchases, input tax credits will be available for purchases of up to AMD 300,000 (approximately USD 825) per transaction up to a maximum of AMD 3 million (approximately USD 8,200) per month, provided all necessary VAT information is included on the sales receipt or the VAT invoice.
- An input tax credit may not be claimed for:
  - VAT paid before a taxpayer is a VAT payer.
  - The purchase or importation of cars that are not acquired for the purpose of resale, although a credit based on the residual value of the vehicle will be allowed when the vehicle is eventually sold.
- An input tax credit will not arise on purchases exceeding AMD 100,000 (approximately USD 275) if a taxpayer fails to correctly report those invoices in the report with information on sales and purchase invoices submitted to the tax authorities.

### *VAT and other taxes*

- When calculating taxable profit for corporate profits tax purposes, VAT that cannot be reclaimed may be deducted as a business expense or included in the capital costs of assets that are depreciated for tax purposes, as appropriate.
- VAT that is not recovered will normally arise only for entities that make VAT exempt supplies, or for entities that are not registered for VAT.
- If a full credit for input VAT is made, the relevant transaction is recorded net of VAT for corporate profits tax purposes.



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## ***Excise tax***

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# ***Taxation of companies***

## *Taxpayers*

- A taxpayer is subject to excise tax if it:
  - Produces excisable goods in Armenia.
  - Imports excisable goods into Armenia.

## *Taxable goods*

- Taxable goods include:
  - Beer, grape and other wines, wine ingredients, vermouth and other types of wine that contain vegetarian and other extracts, other brewed drinks, ethyl spirit, alcoholic drinks and spirits.
  - Cigars, cigarillos and cigarettes with tobacco or its substitutes.
  - Petrol, diesel fuel and gases produced from oil and other hydro-carbons (except for natural gas).

## *Tax rates*

- Excise tax rates are fixed per physical unit of excisable good (litre, cm<sup>3</sup>, kilogram, ton, etc).
  - Current excise tax rates for goods may be found in Appendix 3.
  - Different rates apply for goods produced in and goods imported into Armenia.

## Excise taxes

### Case 5: Excise Tax

#### Background information

An Armenian company imports excise product – Tobacco substitutes (commodity nomenclature code 2403) purchased from a non-resident supplier. On 30 January 2011 the company imported 1,000 kilograms and sold the total amount to its customers.

#### Calculation of excise tax

Excise tax on imported tobacco substitutes is AMD 1,500 per kilogram. Thus, excise tax on the importation is AMD 1,500,000 (a). The tax is payable within 10 days after importation.

Note:

- a) Excise tax is calculated as  $1,500 * 1,000$ . No further excise tax is payable when the imported excisable goods are sold. Excise tax is included in the cost of goods.

#### *Exempted supplies*

- Goods exempted from excise tax include:
  - Sale of products exported from Armenia.
  - Goods subject to the excise tax imported into and exported from the customs territory Armenia under customs regimes established by the customs legislation, other than goods imported under the “import for free turnover” regime.
  - Import and realisation of goods subject to excise tax that are confiscated in accordance with procedures established by legislation, goods recognised as having no owner and transferred to the State, as well as good transferred to the State by the right of inheritance.
  - Goods subject to excise tax imported into the Armenia by individuals who are not entrepreneurs that do not exceed the value or quantity defined by custom legislation.

## Excise taxes

### *Compliance*

- The excise tax reporting period is a calendar month.
- Excise tax on imports is administered by the Armenian customs authorities. Other excise tax is administered by the tax authorities.
- Taxpayers producing excisable goods are required to pay the tax liability within 20 days after the end of the reporting month and submit a quarterly excise tax return by the 20<sup>th</sup> day of the month following the quarter. For certain beverages and tobacco products, excise stamps are used to collect the excise tax.

### *Excise stamps*

- The following goods are subject to excise stamping:
  - Grape and other wines, wine ingredients.
  - Vermouth and other types of wine that contain vegetarian and other aromatic extracts.
  - Other brewed drinks (apple cider, pear cider, honey-drinks).
  - Ethyl spirit.
  - Cigars, cigarillos and cigarettes.
  - Alcoholic drinks.
  - Tobacco products except for pipe tobacco.
- Upon purchase of excise stamps, the nominal value of such stamps is paid. Stamping of excisable goods must be carried out in accordance with rules established by the Government of Armenia.

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## *Property tax and land tax*

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# ***Taxation of companies***

- Land and property taxes are assessed by the local authorities.
- Other than property and land taxes, Armenia does not have local taxes and duties affecting business. A hotel tax exists as a type of municipal tax. However, a separate law should be enacted to force the application of the hotel tax.

## **Property tax**

### *Taxpayers*

- All individuals and legal persons (irrespective of their organisational type and residence) that have property in Armenia subject to property tax are considered as property tax payers.

### *Taxable assets*

- Dwellings, public and industrial buildings.
- Transportation means.

### *Tax base and rates*

- The tax base for buildings is determined by the cadastral value.
  - The tax rate on public and industrial buildings is 0.3% on the cadastral value of property.
  - The tax rate for other taxable buildings depends on the cadastral value of the building:

## Property tax and land tax

Cadastral value of building	Tax rate
Up to AMD 3 million	0%
AMD 3 million to AMD 10 million	AMD 100 + 0.1% of excess over AMD 3 million
AMD 10 million to AMD 20 million	AMD 7,100 + 0.2% of excess over AMD 10 million
AMD 20 million to AMD 30 million	AMD 27,100 + 0.4% of excess over AMD 20 million
AMD 30 million to AMD 40 million	AMD 67,100 plus 0.6% of excess over AMD 30 million
Over AMD 40 million	AMD 127,100 plus 1.0% of excess over AMD 40 million

- The tax base for transportation is engine capacity (in horsepower).
  - For cars with up to 10 seats, the annual property tax is calculated as:

Capacity (horsepower)	Tax rate (per horsepower)
Up to 120	AMD 200
121 to 150	AMD 300
151 to 250	AMD 300 + AMD 1,000 per horsepower in excess of 150
251 and over	AMD 500 + AMD 1,000 per horsepower in excess of 150

- For motor vehicles with more 10 seats and trucks, the annual property tax is calculated as:

Capacity (horsepower)	Tax rate (per horsepower)
Up to 200	AMD 100
201 and over	AMD 200

- The annual property tax on motorcycles is calculated at the rate of AMD 40 for each horsepower of tax base.
- The annual rate of property tax on watercraft is calculated at AMD 150 for each horsepower of tax base.

## Property tax and land tax

- Beginning from the fourth year after the year of production, the tax base is reduced by 10% per year, up to a maximum reduction of 50%.

### *Exemptions*

- There is no property tax on trucks that have been in use for more than 20 years.

### *Compliance*

- Legal entities must calculate property tax and pay this to the municipal budget on a quarterly basis:
  - The quarterly property tax calculations should be submitted to the local tax inspectorates not later than the 25th day following the reporting quarter.
  - The property tax should be paid not later than the 1st day of the second month following the reporting quarter.
- Property tax payable by individuals is assessed annually by the municipal government.



## Property tax and land tax

### Case 6: Property tax

#### Background information

For 2011, an Armenian Company owns the following property:

- An industrial building with a cadastral value of AMD 10,000,000.
- Two apartments, one with a cadastral value of AMD 15,000,000 and the other with a cadastral value of AMD 30,000,000.
- A new car with four seats and a capacity of 250 horsepower.
- A 2006 model car with four seats and a capacity of 100 horsepower.

#### Calculation of property tax

	AMD	Notes
Industrial building	30,000	(a)
Apartment 1	17,100	(b)
Apartment 2	67,100	(c)
New car	175,000	(d)
2006 car	<u>16,000</u>	(e)
Property tax payable	<u>305,200</u>	

#### Note:

- a)  $\text{AMD } 10,000,000 * 0.3\%$ .
- b)  $\text{AMD } 7,100 + (\text{AMD } 15,000,000 - \text{AMD } 10,000,000) * 0.2\%$ .
- c)  $\text{AMD } 27,100 + (\text{AMD } 30,000,000 - \text{AMD } 20,000,000) * 0.4\%$ .
- d)  $\text{AMD } 300 * 250\text{hp} + \text{AMD } 1,000 * (250\text{hp} - 150\text{hp})$ .
- e)  $\text{AMD } 200 * 100\text{hp} * (1 - 20\%)$ . The three years of use for a 2006 model vehicle will be completed in 2009, so the first 10% reduction in property tax will apply in 2010.

## Land tax

### *Taxpayers*

- Land Tax is payable by landowners and permanent and temporary users of state owned land.

### *Tax rates*

- Land tax due on agricultural land is set at the rate of 15% of the estimated net cadastral value, which is set by the government. The government may grant special exemptions from payment of land taxes during periods of unusually harsh agricultural conditions.

## Property tax and land tax

- For non-agricultural land, the land tax rate is specified as follows:
  - 1.0% of the cadastral value on land in urban areas.
  - 0.5% on land outside urban areas used for purposes of industry, transportation, communications, defence, gas pipelines.
  - 1.0% of the average cadastral value on forests.
  - 1.0% of the cadastral value on other idle land.

### *Compliance*

- Legal entities must submit land tax calculations to the State Tax Authorities by September of the reporting year.
- Legal entities must pay land tax to the local budget quarterly, by the 25th day of the month following the reporting quarter.
- Land tax payable by individuals is assessed annually by the municipal government.

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## *Presumptive taxes*

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# ***Presumptive taxes***

## *General*

- Various business activities are subject to presumptive taxes.
- Currently the importation and production of tobacco products is subject to presumptive taxes, however, starting from 1 January 2011 those activities will be subject to general taxation.
- The rules require qualifying entities and individual entrepreneurs to pay a fixed amount of tax, instead of accounting for corporate profit tax or personal income tax,<sup>1</sup> excise tax and VAT.
- The rate of tax depends on the activity.
- A Government initiative is underway to transition taxpayers from presumptive tax to the general taxation rules.

## **Presumptive payments for certain business activities**

- Various types of business activity are currently subject to presumptive tax.
  - Public catering.
  - Transportation activities.
  - Barber shops.
  - Auto repair shops.
  - Retail sales of petrol and diesel fuel.<sup>2</sup>
  - Parking lot operators.
  - Industrial fishing (see note 2 on the previous page).
  - Starting from 1 January 2013 presumptive payments will not cover the personal income tax
  - Starting from 1 January 2012 the activity will be subject to general taxation

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<sup>1</sup> Starting from 1 January 2013 presumptive payments will not cover the personal income tax

<sup>2</sup> Starting from 1 January 2012 the activity will be subject to general taxation

## Presumptive taxes

- Gambling house (casinos) organisers (including internet gambling) and gambling machine (cash winnings machine) exploiters.<sup>3</sup>
- Computer game organisers (see note 2 on the previous page).
- Lottery game organisers.
- Bathhouse and washhouse operators (see note 2 on the previous page).
- Vehicle gas-filling activities.
- Billiards game organisers (see note 2 on the previous page).
- The rate of tax depends on the nature of the activity, location, size of trading premises (if applicable) and various other criteria.

### *Compliance*

- Taxpayers are required to make presumptive payments within 15 days after the end of the reporting month and file returns either by 15<sup>th</sup> day of the following month or 20<sup>th</sup> day of the following quarter depending on the type of activities.

## Presumptive payments for tobacco products

### *Taxpayers*

- Individuals and legal entities importing tobacco products into Armenia or producing tobacco products in Armenia are subject to presumptive tax. Starting from 1 January 2014 the Law on Presumptive Payments for Tobacco Products will be invalid. Importation and production of tobacco products will be subject to general VAT taxation regime. Taxable turnover will be determined based on the maximum retail price (VAT exclusive) defined by the Armenian Government. Sale of the tobacco products by the persons who are not tobacco producer or importer will be VAT exempt.
- Citizens importing tobacco products shall be considered to be taxpayers for tobacco products in excess of 400 cigarettes or cigarillos and 10 cigars.

### *Taxable assets*

- Cigars.
- Cigarillos.
- Cigarettes (filtered and unfiltered).

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<sup>3</sup> Starting from 1 January 2013 the activity will be subject to general taxation

## Presumptive taxes

### Presumptive payment (AMD per 1,000 units)

Product	Commodity nomenclature code						
		For 2011		For 2012		For 2013	
		Import	Production	Import	Production	Import	Production
Cigars containing tobacco	2402 10 000 11	550,000	300,000	550,000	300,000	550,000	300,000
Cigars other	2402 90 000 11						
Cigars containing tobacco	2402 10 000 12	15,000	11,000	15,000	11,000	15,000	11,000
Cigars other	2402 90 000 12						
Filtered cigarettes containing tobacco	2402 20 900 11	7,000	5,500	7,500	6,250	8,000	7,000
Filtered cigarettes containing clove	2402 20 100 11						
Filtered cigarettes, other	2402 90 000 13						
Unfiltered cigarettes containing tobacco	2402 20 900 12	3,250	1,950	3,250	1,950	3,250	1,950
Unfiltered cigarettes containing clove	2402 20 100 12						
Unfiltered cigarettes, other	2402 90 000 14						

# Presumptive taxes

## *Compliance*

- For imported goods the presumptive payments is paid during 10 days after importation.
- For domestic production taxpayers are required to file and pay presumptive payments within 25 days after the end of the reporting month.

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## ***Tax disputes and penalties***



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# ***Tax disputes and penalties***

## ***Risk based audits***

- For the purposes of planning the audits the authorities develop the risk criteria that are approved by the Armenian Government.
- Based on the risk criteria entities are classified into following three categories:
  - high risk entities,
  - medium risk entities,
  - low risk entities.
- Up to 20% of the entities subject to audit should be treated as high risk.
- The annual audit plan should include at least 70% of the high risk entities and at least 5% of the low risk entities subject to audit during the year.
- The authorities should approve the audit plan for the following year before 1 December of the preceding year. The plan should be published during three working days on the authority's website.
- State authorities with the exception of the tax, customs, economic competition protection, statistic and public procurement authorities should carry out all inspections based on the checklists, which are approved by the Government.

## ***Tax audits***

- The tax authorities may carry out scheduled<sup>2</sup> audits a maximum of once each year for the high risk taxpayers, once each three years for the medium risk taxpayers and once each five years for the low risk taxpayers.
  - Business entities must be notified of the audit in writing at least three days before the scheduled audit.
  - For normal business entities, the scheduled audit should be carried out within 15 business days, although the period may be extended by up to ten days.
  - For companies whose annual revenue exceeds AMD 3 billion (approximately USD 8.3 million), the period may be extended by up to 75 business days.

## Tax disputes and penalties

- The actual period of the inspection for normal business entities should not exceed 30 business days and 90 business days for the large companies.
- Before starting an audit, the tax inspector must present a written order to the taxpayer outlining the scope and period of the tax audit. The written order specifies the names of the officials who may participate in the audit.

### Assessments

- With the exception of land tax and property tax for unregistered individuals, taxpayers make returns and payments on a self-assessment basis. However, if the tax authorities determine that the tax shown on the return is incorrect, they may assess taxes within three years from the end of the year in which the return is filed.
- The amount of a tax assessed, as well as any fines and penalties, should be paid within ten days from the Tax Inspectorate presenting the assessment.

### Appeals

- Assessments may be appealed administratively or through the court system.
- An administrative appeal must be filed to the relevant level of the tax administration within two months of receiving an assessment.
- The tax authorities must respond to the appeal within 30 calendar days, although the law does not impose any sanctions if they fail to do so.
- At any stage of the process, or if the national office rejects the appeal, a taxpayer is entitled to pursue an action through the courts instead.
- The tax authorities have a right to suspend the collection of taxes while an assessment is being appealed, but the law does not oblige the authorities to suspend collection.

### Tax fines and penalties

- Penalties are often specified in terms of a multiple of the monthly "minimum salary" used for penalty purposes, which is currently AMD 1,000 (approximately USD 2.70).
- Multiple penalties may be imposed. Liability is assessed by the tax authorities.

# Tax disputes and penalties

## *Failing to register with the tax authorities*

- Failing to register with the tax authorities within one month from state registration is subject to a penalty of between AMD 10,000 and AMD 20,000 (approximately USD 27 to USD 54).

## *Late filing or reporting*

- Failing to submit to the tax inspectorate on time a declaration, return, or other document required by law is subject to a penalty of between AMD 10,000 and AMD 20,000 (approximately USD 27 to USD 54). If a tax return is filed more than two months late, a penalty of 5% of the amount of tax not paid as a result of late filing is imposed for each 15 days of delay, up to a maximum penalty of 100%.
- Failing to submit financial statements to the state authorities on time is subject to a penalty of AMD 50,000 (approximately USD 135). Failing to submit (or publish) the financial statements within 30 days of the penalty is subject to a further penalty of AMD 500,000 (approximately USD 1,350). Publishing financial statements signed by an uncertified accountant is subject to a penalty of AMD 50,000. A person who was assessed for the same violation in the previous year is subject to a penalty of AMD 250,000 (approximately USD 685).
- Failing to submit the annual information on income paid to individuals by 15 April of the subsequent year is subject to a penalty of AMD 5,000 (approximately USD 13.5) for each individual.
- If the report on sales and purchase invoices exceeding AMD 100,000 is incorrect or incomplete, a penalty of AMD 5,000 (approximately USD 13.5) will be charged for each incorrect or missing entry.

## *Late payment of tax*

- Failing to pay taxes on time is subject to a penalty of between AMD 10,000 and AMD 20,000 (approximately USD 27 to USD 54). In addition, the taxpayer (or tax agent) is liable to a fine equal to 0.15% of the amount of the tax overdue for each day of delay, up to a maximum of 365 days.

## *Understated tax liabilities*

- If during an audit the tax authorities determine that the tax liability shown in the taxpayer's return is understated, they will impose penalties of 50% of the tax assessed. A repeat offence within one year is subject to a 100% penalty.
- If during an audit the tax authorities determine that the tax liabilities were underpaid due to the failure to keep accounts or violations of the established accounting procedures, incorrect accounting reporting, drawing up calculations, returns and other documents and information required by the tax legislation they will impose a penalties of 10% of the amounts of taxes underpaid.

## Tax disputes and penalties

- If losses in a tax return are overstated and are not voluntarily disclosed and corrected before a tax inspection, a penalty amounting to 20% of the overstated loss is payable.

### *Tax evasion*

- Creating false documents for sales or expenses may be subject to a fine of AMD 1 million to AMD 2 million (approximately USD 2,750 to 5,500) or imprisonment from three to five years.
- Evading taxes, duties or other mandatory payments by not submitting tax reports, returns or documents or entering clearly false data into those documents, may be subject to a fine of AMD 2 million to AMD 3 million (approximately USD 5,500 to 8,250).
- Entering clearly distorted data on income and expenses into a tax return declaration by individuals may be subject to a fine of between AMD 100,000 and AMD 500,000 (approximately USD 275 to USD 1,375) or imprisonment of up to two months, if the loss of tax to the authorities exceeds AMD 200,000 (approximately USD 550).

### *Excise tax*

- If the tax authorities determine that excise taxes have been underpaid, a 100% penalty will be imposed.
- If more than one adjusted excise tax report is filed for each reporting period, a penalty of AMD 200,000 (approximately USD 550) will be imposed for each of the second and subsequent adjusted returns.
- Selling goods without appropriate excise tax stamps or with forged excise tax stamps is subject to a penalty of AMD 1 million to AMD 3 million (approximately USD 2,750 to USD 8,250). The fine depends on the aggregate value of the goods sold.

### *Illegal and unlicensed activities*

- A person engaged in activity that is subject to licensing either without holding the requisite license or operating outside of the scope of that license is subject to a fine equal to 50% of the illegal sales. If a repeat offence occurs within one year, a 100% fine will be imposed.

## Tax disputes and penalties

- A person engaged in activities prohibited by law will be subject to a fine of 100% of illegal sales.

### *Failing to display registration details*

- Businesses failing to display their tax registration details will be subject to a penalty of AMD 50,000 (approximately USD 135) for a first offence, and AMD 500,000 (approximately USD 1,375) for a subsequent offence.

## Tax representatives

- The tax authorities may appoint a representative to be stationed in a taxpayer's premises to observe and examine records and documents directly related the process of delivery, transportation and sale of products.
- A tax representative may be appointed if a taxpayer's revenue for the previous year (excluding indirect taxes) exceeded AMD 4 billion (approximately USD 11 million), the customs value of goods imported by the taxpayer under the "Importation for Free Circulation" rules within any three-month period in the year exceeds AMD 500 million (approximately USD 1.37 million), there is a discrepancy of more than AMD 100 million (approximately USD 275,000) between data submitted in a taxpayer's return and measurement procedures conducted by the tax authorities (e.g., estimated revenue based on observing customers), or the taxpayer makes a written request to have a tax representative stationed on its premises.
- The total period for supervision may be up to 183 calendar days for one calendar year or 250 working days for two calendar years.

## Tax clarifications

- Taxpayers may request written explanations from the tax authorities on the application of specific tax laws.
- Explanations are not legally binding and do not provide solid protection against tax assessments and penalties. However, a written explanation may be useful in resolving disputes with local tax authorities regarding uncertainty in the tax legislation.

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## *Customs*

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# **Customs**

## *Taxpayers*

- The Customs Code of Armenia regulates customs procedures in Armenia and defines the regimes under which goods are brought into or taken out of the customs territory of Armenia.
- The most frequently used customs regimes are import for free circulation, temporary import, temporary export, and export for free circulation.
- Customs levies are payable by persons whose goods cross the customs border of Armenia. Customs levies consist of customs duties, taxes, duties and other mandatory charges.
- Where imported goods are subject to customs levies, the importer or his/her authorised representative is responsible for the payment of any customs levies within the specified period.
- Where imported goods are subject to customs duties, the importer or his/her authorised representative is responsible for the payment of any customs duties at the time the goods are released by customs for free circulation.
- To import the goods, a taxpayer (entity, individual) must:
  - Lodge a customs declaration for the goods.
  - Submit invoices and bills of lading.
  - Pay any import duties owed.
  - Submit a license or certificate to confirm the compliance of goods with health, safety, economic and environmental regulations (if applicable).
- Once all these conditions have been satisfied and customs clearance procedures completed, the goods will be custom cleared. They may then be transported, stored or offered for sale, without being subject to any further customs formalities.

## *Customs duty*

- Customs duty is based on the customs value of goods.

## Customs

- The rate applicable to the customs value of the goods is fixed at 0 or 10%.
- Importers should check the tariff rates for the relevant HS code to confirm the tax rate that applies.
- Generally, customs duty is imposed as an ad valorem duty, which means that the tax is calculated as a percentage of the customs value of the goods. Importers must take into account specific rules (based on WTO rules) to determine the customs value on which the import tax will be applied.
- As a general rule, customs duty is collected on the customs value of the imported goods. For this purpose, the general rule is that the customs value will be the price actually paid or payable for the goods when sold for export to Armenia. This is commonly known as the “transaction value.”
  - A number of additions must be made to the price paid or payable if those elements have not already been included in the selling price. Those elements include: transportation costs, commissions and brokerage, loading and handling charges, warehousing charges, royalties and license fees related to the goods being valued, insurance charges, other similar charges incurred with respect to the goods before their customs clearance.
  - Provided that certain costs are shown separately from the price actually paid or payable, the following are not be included in the customs value: charges for the transport of goods from the customs; buying commissions; charges for the right to reproduce imported goods in Armenia and other similar charges.



### Case 7: Customs Duties

#### Background information

An Armenian resident company imported computers weighing less than one ton into the customs territory of Armenia on 30 April 2011. According to the invoice presented by the company the cost of the product is EUR 20,000, transportation cost from the seller abroad to Armenia is EUR 1,000 and insurance cost is EUR 500.

#### Calculation of customs duties

The company will be subject to the following taxes and fees at customs:

Customs fee is AMD 5,500. (a)

Customs value is AMD 11,015,525. (b)

Customs duty is 0. (c)

Customs VAT is AMD 2,203,105. (d)

Notes:

- a) Customs fee is AMD 3,500 for general customs formalities, AMD 1,000 for customs control and AMD 1,000 for documents issued the customs authorities.
- b)  $(20,000 + 1,000 + 500) * 512.35$ . To convert the amount in foreign currency into AMD, the exchange rate fixed by the Central Bank of Armenia on 1 January 2011 is used.
- c) Import of equipment falls into the 0% customs tax rate; thus customs tax is calculated as:  $11,015,525 * 0\%$ .
- d) Customs VAT is calculated on the sum of customs value and customs tax (if applicable); thus customs VAT is calculated as follows:  $(11,015,525 + 0) * 20\%$ . Further, customs VAT is a creditable VAT and can be refunded, while customs fee and customs tax can not be added to the balance value of the product and are therefore expendable.

- When the transaction value of the goods imported cannot be used, the importer must rely on the following alternatives in the order specified (the fifth and sixth methods may be reversed at the request of the declarant):
  - The transaction value of identical goods (the second method).
  - The transaction value of similar goods (the third method).
  - The unit price of goods (the fourth method).
  - The computed value (the fifth method).
  - The reserve method (the sixth method).
- Each method is to be applied only when the previous method cannot be applied. This is in accordance with the requirements of the World Trade Organisation (WTO) Customs Valuation Agreement, which Armenia as a WTO member must apply.

## Customs

Activity	Fee
Customs formalities (except inspection and registration) relating to goods and vehicles crossing the customs border, as well as currencies carried by banks	AMD 3,500
Inspection and registration of goods (except goods transported through pipeline and electric transmission circuits)	AMD 1,000 for the first ton of weight, and AMD 300 for each additional (or partial) ton of cargo declared under the same declaration
Customs control and registration of goods transported through pipeline and electric transmission circuits	AMD 500,000 for each type of goods transmitted under the same contract in one month in the same direction
Customs formalities in non-standard places and working hours	Double the normal rates
Each document (form) provided by the customs authorities	AMD 1,000
Customs escort of goods throughout Armenia	AMD 10,000 per 100km
Customs warehousing by the customs authorities	AMD 1,000 per day for first ton of weight, and AMD 300 per day for each additional (or partial) ton
Customs control of means of transportation	AMD 2,000 for a car with up to 10 seats, and AMD 5,000 for other means of transportation

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## *Establishing a legal presence*

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## ***Establishing a legal presence***

- Any person wishing to establish a business entity or branch office in Armenia must file prescribed documents with the State Registry of Legal Entities.
  - If documents are prepared abroad, they must be legalised or apostilled.
  - If documents are prepared in a foreign language, they must be translated in Armenia into the Armenian language, and the translation notarised.
  - Registration should be completed within 5-7 working days once all documents are available in the proper form.
- There are no restrictions on foreign ownership of companies in Armenia.
- Business activities may be conducted in any of the legal forms below.
  - A **Joint Stock Company (JSC)** is a legal entity having a charter and capital divided into shares with equal nominal value.
    - A JSC's liability to creditors is limited only by its property. Shareholders are not liable for the company's liabilities.
    - There is no mandatory minimum charter capital requirement for a JSC, except when the law envisages minimum capital requirements for certain types of activity.
    - A JSC may have multiple classes of shares carrying different rights for the shareholders of each class.
    - A JSC may be established as an "open" or "closed" JSC:
      - Shares in an open JSC may be offered to the public, freely transferred, and may ultimately be traded on a stock exchange.
      - Shares in a closed JSC are distributed initially between its founding shareholders. Existing shareholders in a closed JSC also have pre-emptive purchase rights for shares offered for sale by the other shareholders.
  - A **Limited Liability Company (LLC)** is a legal entity whose liability to creditors is limited to its property.

## Establishing a legal presence

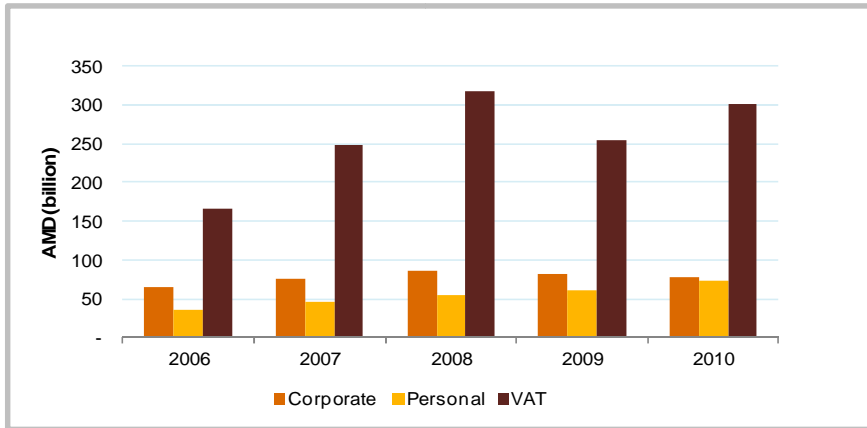
- There is no mandatory minimum charter capital requirement for a LLC, except when the law envisages minimum capital requirements for certain types of activity.
  - An LLC may be founded by one person.
- The Civil Code allows for the establishment of **general partnerships** and **limited partnerships** as legal entities, but such vehicles are not widely used. Because partnerships are legal entities, there are no regulatory or legal advantages to conducting business through a partnership.
- **Branches** and **representative offices** are not legal persons and operate in Armenia on behalf of the foreign (or local) companies that they represent:
  - The activities of a representative office are limited to representing the interests of its head office.
  - A branch may perform some or all of the normal commercial activities of the entity to which it belongs.
- The Civil Code does not recognise the concept of a joint venture without the need to establish a separate legal entity, so joint ventures typically involve establishing a separate legal entity.

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## *Appendices*

## Appendix 1 – Tax statistics

**Figure 1 Tax Collections**



Source: National Statistical Service of the RA ([www.armstat.am](http://www.armstat.am))

**Figure 2 Revenues of the State Budget of Armenia**

AMD billion	2006	2007	2008	2009	2010
Total Revenue and Transfers	494.7	650.3	785.4	676.4	733.4
Tax Revenues and Duties	385.1	505.5	621.1	522.4	
Total Revenues as a % of GDP	18.6	20.7	20.4	21.3	
Tax Revenues as a % of GDP	14.5	16.1	17.0	16.6	

Source: Ministry of Finance of the RA ([www.minfin.am](http://www.minfin.am))

## Appendix 2 – Tax filing and payments

Monthly obligations	Payment deadline	Return filing deadline
Advance (or minimum) profit tax for legal entities	15th day of the last month of each reporting quarter.	
VAT (if revenue for the previous year exceeded AMD 100 million)	Within 20 days following the end of the month.	VAT return: within 20 days following the end of the month. VAT information (invoices): within 20 days following the end of the month.
Mandatory social security payments	Within 20 days following the end of the month.	
Individual income tax (tax agent)	Within 20 days following the end of the month when income was paid or salary was accrued.	
Withholding tax on payments to non-residents	Within 20 days of the following month.	
Excise tax	Within 10 days from importation. For domestic production, within 20 days after the end of the month.	Within 20 days of the second month following quarter.
Presumptive payments for	Within 25 days after the end of the month.	Within 25 days after the end of the month.
Other presumptive payments	Within 15 days after the end of the month.	Within 15 days after the end of the month.



## Appendix 2 – Tax filing and payments

Quarterly obligations	Payment deadline	Return filing deadline
Advance (or minimum) income tax for individual entrepreneurs	15th day of the last month of each quarter.	
VAT (if revenue for previous year did not exceed AMD 100 million)	Within 20 days following the end of the quarter.	VAT return: within 20 days following the end of the quarter.
		VAT information (invoices): within 20 days following the end of the quarter.
Mandatory social security payments		Within 20 days following the end of the quarter
Individual income tax (tax agent)		First day of the second month of the following quarter.
Withholding tax on payments to non-residents		By February 20 of the following year.
Property tax (legal entities)	First day of the second month after the end of the quarter.	Within 25 days after the end of the quarter.

## Appendix 2 – Tax filing and payments

Bi-annual obligations	Payment deadline	Return filing deadline
Advance profit tax for branches and representative offices of foreign legal entities	1 July and 31 December.	

Annual obligations	Payment deadline	Return filing deadline
Profit tax	25 April of the following year.	15 April of the following year.
Individual income tax	1 May of the following year.	15 April of the following year.
Individual income tax (tax agent)		15 April of the following year.
Land tax (legal entities)	1 September.	25th day of the month following the reporting quarter.

## Appendix 3 – Withholding tax rates for non-residents at 1 January 2011

### Dividends, interest and royalties

Dividends			Interest (1)	Royalties
Country	Non-portfolio %	Portfolio %	%	%
<b>Non-treaty</b>	10	10	10	10
<b>Austria</b>	5 (2)	15	0 / 10 (3)	5
<b>Belarus</b>	10(4)	15	10	10
<b>Belgium</b>	5 (2)	15	0 / 10 (3)	8
<b>Bulgaria</b>	5 (5)	10	10	10
<b>Canada</b>	5 (6)	15	10	10
<b>China (People's Rep.)</b>	5 (7)	10	10	10
<b>Croatia</b>	0 (8)	10	10	5
<b>Czech Republic</b>	10	10	0 / 5 / 10 (9)	5 / 10 (10)
<b>Estonia</b>	5 (7)	15	10	10
<b>Finland</b>	5 (7)	15	5	5 / 10 (11)
<b>France</b>	5 (2)	15	0 / 10 (12)	5 / 10 (13)
<b>Georgia</b>	5 (7)	10	10	5
<b>Greece</b>	10	10	10	5
<b>India</b>	10	10	10	10
<b>Iran</b>	10 (7)	15	10	5
<b>Italy</b>	5 (14)	10	0 / 10 (15)	7
<b>Latvia</b>	5 (7)	15	10	10
<b>Lebanon</b>	5 (7)	10	8	5
<b>Lithuania</b>	5 (7)	15	10	10
<b>Luxembourg</b>	5 (2)	15	10	5
<b>Moldova</b>	5 (7)	15	10	10
<b>Netherlands</b>	0 / 5 (16)	15	0 / 5 (12)	5
<b>Poland</b>	10	10	5	10
<b>Qatar</b>	5 (17)	10	5	5
<b>Romania</b>	5 (7)	10	10	10

## Appendix 3 – Withholding tax rates for non-residents at 1 January 2011

<b>Russia</b>	5 (5)	10	0	0
<b>Switzerland</b>	5 (18)	15	0 / 10 (3)	5
<b>Syria</b>	10	10	10	12
<b>Thailand</b>	10	10	10	15
<b>Turkmenistan</b>	5 (7)	15	10	10
<b>Ukraine</b>	5 (7)	15	10	0
<b>United Arab Emirates</b>	3	3	0	5

- (1) Several treaties contain a 0% rate on interest paid to or guaranteed by a government or one of its agencies. The table does not analyse such provisions.
- (2) The ownership threshold for the non-portfolio rate is 10%.
- (3) The 0 percent rate applies to the sale on credit of industrial, commercial, or scientific equipment, and capital goods, and interest on loans granted by banking enterprises. The 10 percent rate applies in other cases.
- (4) The ownership threshold for the non-portfolio rate is 30%.
- (5) The ownership threshold for the non-portfolio rate is direct investment of USD 40,000.
- (6) The ownership threshold for the non-portfolio rate is 25% and the direct investment must exceed USD 100,000.
- (7) The ownership threshold for the non-portfolio rate is 25%.
- (8) The 0% rate applies if the dividends are paid to a foreign company that has owned more than 25% of the Armenian company for at least two calendar years preceding the distribution and the dividends are not subject to profit tax in the foreign company's country of residence.
- (9) The 0 percent rate applies to government debt and government-assisted debt; the 5 percent rate applies to interest on loans or credit granted by banks; and the 10 percent rate applies in other cases.
- (10) The 5 percent rate applies to literary, artistic, or scientific work copyright royalties and to film and broadcasting royalties. The 10 percent rate applies in other cases.
- (11) The lower rate applies to consideration for the use of, or the right to use, any computer software, patent, trade mark, design or model or plan, secret formula or process, or information concerning industrial, commercial or scientific experience (know-how).
- (12) The 0 percent rate applies to the credit sale of industrial, commercial, or scientific equipment, to the credit sale of merchandise or services, and to loans granted by a bank. Higher rate applies in other cases.
- (13) The 5 percent rate applies to copyright royalties and the 10 percent rate applies in other cases.
- (14) The ownership threshold for the non-portfolio rate is 10% and the direct investment must exceed USD 100,000.
- (15) The 0% rate applies to interest on a loan granted by a banking enterprise. The 10 percent rate applies in other cases.
- (16) The ownership threshold for the 5% non-portfolio rate is 10%. The 0% rate applies if the dividends out of which the profits are paid have been effectively taxed at the normal rate for profits tax and the dividends are exempt income to the Dutch recipient.
- (17) The ownership threshold for the non-portfolio rate is direct investment of USD 100,000.
- (18) The ownership threshold for the non-portfolio rate is 25% and the direct investment must exceed CHF 200,000.

## Appendix 3 – Withholding tax rates for non-residents at 1 January 2011

### *Other income*

Payments for insurance, reinsurance, and transportation.....	5%
Other income received from Armenian sources.....	10%

## Appendix 4 – Excise tax rates

Tax rate (AMD)				
# Name of Goods	Commodity nomenclature code	Unit of measure	Goods produced in Armenia	Goods imported into Armenia
<i>Beer</i>	2203	1 litre	70	105
<i>Grape and other wines, wine ingredients</i>	2204	1 litre	10% of factory price, but not less than AMD 100	10% of customs value, but not less than AMD 150
<i>Vermouth and other types of wine that contain vegetarian and other aromatic extracts</i>	2205	1 litre	500	600
<i>Other brewed drinks (apple cider, pear cider, honey-drinks)</i>	2206	1 litre	180	200
<i>Ethyl spirit</i>	2207	1 litre (by recalculation of 100% spirit)	600	700
<i>Alcoholic drinks</i>	2208	1 litre	30% of factory price, but not less than AMD 380	30% of customs value, but not less than AMD 600
<i>Tobacco substitutes</i>	2403	1 kilogram	1,500	1,500
<i>Raw oil and oil materials</i>	2709	1 ton	27,000	27,000
<i>Gases produced from oil and other hydro-carbons (except natural gas)</i>	2711 (excluding 2711 11 and 2711 21)	1 ton	1,000	1,000

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## *Useful government websites*

President of Armenia	<a href="http://www.president.am">www.president.am</a>
Parliament of Armenia	<a href="http://www.parliament.am">www.parliament.am</a>
Government of Armenia	<a href="http://www.gov.am">www.gov.am</a>
Ministry of Economy	<a href="http://www.mineconomy.am">www.mineconomy.am</a>
Ministry of Foreign Affairs	<a href="http://www.armeniaforeignministry.com">www.armeniaforeignministry.com</a>
Ministry of Justice	<a href="http://www.moj.am">www.moj.am</a>
Electronic Government	<a href="http://www.e-gov.am">www.e-gov.am</a>

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Tel: +374 10 59 46 57

E-mail: [info@petekamutner.am](mailto:info@petekamutner.am)

Website: [www.taxservice.am](http://www.taxservice.am)

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