

Tax & Legal Alert

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New tax laws enacted

Several new tax laws will take effect from 1 January 2009. Some highlights are summarised in this Alert.

We also comment on the Tax Administration Strategy Program for 2008-2011 that is currently being implemented by the tax authorities.

For more information, please contact one of the individuals identified below.



Tax amendments for 2009

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department.

Various amendments to the tax laws will take effect from 1 January 2009. Some highlights are set out below.

Corporate profits tax

- Non-VAT taxpayers will be able to immediately claim a deduction for the cost of improving any capital assets.
- The simplified taxation for qualifying small legal entities with gross turnover not exceeding AMD 50 million (approximately EUR 120,000) will be repealed. The tax liability of taxpayers moving from simplified tax to the profits tax may not be less than 2% of revenues or more than 10% of revenues for the 2009 calendar year.

Value-added tax

- The annual revenue threshold requiring monthly VAT reporting will increase from AMD 60 million (approximately EUR 140,000) to AMD 100 million (approximately EUR 240,000) per year.
- Businesses with sales exceeding AMD 58.35 million (approximately EUR 140,000) in the preceding calendar year will not be required to account for VAT on their sales in the subsequent calendar year. Businesses that require a license costing more than AMD

100,000 (approximately EUR 240) to operate and businesses producing excisable goods will also be required to account for VAT on their sales.

- Other businesses will be required to account for VAT on any sales in a calendar year in excess of AMD 58.35 million.
- Input tax credits may arise for cash purchases of up to AMD 300,000 (approximately EUR 700) per transaction up to a maximum of AMD 3 million (approximately EUR 7,100) per month, provided all necessary VAT information is included on the sales receipt. Currently, an input tax credit for the purchase of goods or services arises only if payment is remitted through a bank.

Personal income tax

- The date for paying personal withholding taxes to the Budget will move from the 5th to the 20th day of the following month.

Withholding tax

- Currently, commercial organisations are required to withhold 3% and non-commercial organisations are required to withhold 15% tax from payments to

individual entrepreneurs, unless 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. From 1 January 2009, the rate will increase to 11%.

Administrative requirements

- Businesses failing to display their tax registration details will be subject to a penalty of AMD 50,000 (approximately EUR 120) for a first offence, and AMD 500,000 (approximately EUR 1,200) for a subsequent offence.

(Official Directory No. 59 (649), dated 24 September 2008)

Tax administration reform

A Tax Administration Strategy Program for 2008-2011 has been unveiled, with the aim to create a more efficient and transparent tax administration. The seven goals of the initiative are to:

- Ensure complete, consistent and timely taxation of large taxpayers.
- Establish a low but fair tax burden for small businesses, with minimised reporting and filing requirements.
- Address corruption in the State Tax Service.
- Fully introduce the principle of voluntary compliance (self-assessment), minimising contacts between taxpayers and tax officials. This will include transition to mail or electronic submission of reports to the tax authorities.
- Introduce risk-based selection of taxpayers for audit.
- Create an efficient management scheme for the State Tax Service.
- Create an efficient management of tax administration IT flows.

In the initial stages, government representatives have initiated discussions with private sector groups to explain the purpose of the Program and to obtain input on problem areas of tax administration.

There are good indications that taxpayer concerns will be taken on board. For example, untimely VAT refunds have been a perennial problem, but senior officials have indicated that serious efforts are underway to try to clean up the problem by the end of 2009, and that consideration is being given to paying taxpayers interest for late refunds from 2010.

The State Revenue Committee has also established a small team to examine tax policy issues, such as what reforms might be useful to improve the competitiveness of the Armenian tax system.

It will be some time before the effects of the Program may be observed, but there are some encouraging early signs.

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