

Tax & Legal Alert

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New compliance rules

In addition to amendments to several tax laws in November 2008 (see Tax Alert No. 02/2008), Parliament introduced several new administrative rules with effect from 9 January 2009.

This Alert discusses key changes that you need to be aware of to ensure your business continues to comply fully with its tax requirements.

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



Tax compliance updated

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Corporate Profit Tax

In previous years, if a taxpayer discovered that the deductions on its tax return were incorrect, a correction was made in the tax accounts for the year in which the error was identified.

Now, when such errors are identified, the correction should be made in the profit tax return for the year for which the error occurred. This will result in more accurate reporting of income for each year. However, taxpayers must be aware that once the tax authorities commence an audit, the right to correct their tax return expires. Consequently, it will now become more critical that taxpayers determine their liabilities correctly before their returns are filed.

Other amendments include:

- The law was clarified to confirm that taxpayers may deduct administrative expenses related to their activity, even if they do not generate taxable sales.
- Deductions for sponsorship expenses will be limited to rates that are to be established by the Government (the appropriate limit is not yet established).

- The law was clarified to confirm that if taxes are not withheld on payments to non-residents because there is no tax agent in Armenia, the rate of tax when income is self-reported will be the withholding tax rate that would have applied to such income.

(Law No. HO-248-N of 26 December 2008)

Value Added Tax

Taxpayers are required to submit details of all sale and purchase invoices exceeding AMD 100,000 in value with their VAT return. Following the January amendment, failing to submit accurate details may now result in input tax credits being disallowed. Thus, potentially something as basic as transposing an invoice number could result in a loss of VAT credits.

(Law No. HO-246-N of 26 December 2008)

Personal Income Tax

An amendment has been made to confirm that reimbursements and per diems paid to foreign nationals for business trips are not subject to tax if the amounts are within the norms set by the Armenian government.

(Law No. HO-251-N of 26 December 2008)

Personal tax returns due soon

The deadline for filing 2008 personal tax returns is 15 April 2009. Corresponding taxes should be paid by 1 May.

Late filing may be subject to an administrative penalty of AMD 20,000). Late payment of tax is subject to a fine of 0.15% per day.

An individual is generally not required to file a tax return if most of their income is required to have Armenian tax withheld at source, and the amount of taxable income from which tax has not been withheld does not exceed AMD 300,000.

The main development for 2008 is the requirement that tax residents who have income for the year (including exempt income) exceeding AMD 8 million (approximately USD 26,000 at exchange rates applicable in 2008), or were involved in real estate transactions with total value exceeding AMD 50 million of movable property transactions with total value

exceeding AMD 8 million, are required to file a declaration of income and net worth.

The declaration is due on 15 April 2009.

It appears that the main objective of the declaration is to identify the amount of exempt income derived by Armenian tax residents who otherwise would not file a tax return. Thus, 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. However:

- Making an incorrect declaration is subject to an administrative penalty of between AMD 15,000 and AMD 25,000.
- If a declaration is not filed and the tax authorities issue a warning, an administrative penalty may be imposed if and the taxpayer fails to file the declaration within 30 days.

Are you ready for a tax audit?

In 2008, the Armenian government had a revenue target of AMD 746 billion. Despite the global economic downturn, the 2009 target revenue has increased by 21.4% to AMD 905 billion.

It is not clear where the Armenian government expects to obtain the additional revenues, particularly given that the downturn should be expected to result in less profitable companies and correspondingly lower tax payments.

The logical expectation is that the tax authorities may begin conducting more audits, and to take a more aggressive approach to issues. There is no reason to expect that the tax authorities will find any new issues to target. Instead, we can perhaps expect more attention to non-substantive issues such as the quality and organisation of a taxpayer's documents.

Taxpayers should review whether they are ready for a tax audit. If weaknesses in reporting systems and documentation are

identified before the tax inspector arrives, it may be possible to address those weaknesses and reduce the risk of a tax adjustment (e.g., file corrected returns). Once the tax inspector arrives, it is much more difficult (and perhaps even impossible) to make corrections.

We recommend that companies review their previously submitted tax returns to be sure they were completed and submitted correctly, and that the returns are supported by proper documentation. Any weaknesses identified should be immediately addressed.

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Reminder – display your tax registration details

Businesses failing to display their tax registration details may now be subject to a penalty of AMD 50,000 for a first offence, and AMD 500,000 for a subsequent offence.