Tax & Legal Alert

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Electronic filing introduced

This Alert discusses the new rules permitting the electronic filing of tax returns, as well as developments in the rules for reporting information contained in VAT invoices.

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Electronic return submission

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In the document, *Tax Administration Strategy Program for 2008-2011* (see Tax Alert No. 01-08), the government unveiled an initiative aimed at creating an efficient and transparent tax administration.

Among the goals of the initiative were to address corruption in the State Tax Service, and to fully introduce the principle of voluntary compliance. Minimising contacts between taxpayers and tax officials was seen as one way to achieve these goals, and the transition to electronic submission of reports to the tax authorities was identified as a key component of the modernisation strategy.

Because electronic filing involves data being transmitted directly into the computer systems of the tax authorities, it should reduce processing time and the risk of keying errors, leading to more accurate processing of information. In addition, electronic filing reduces the need to taxpayers to interface with tax officials, reducing the opportunity for harassment and corruption in the return filing process.

The Government has passed a decree affording electronic signatures and returns the same legal status as hardcopy documents with handwritten signatures. This provides the platform for returns to be filed electronically.

(Decree No. 537-N dated 14 May 2009, published in Official Journal No. 27 (693))

The decree does not establish the date from which electronic forms may be filed. However, it is understood that from 1 October 2009, the following entities will be entitled to submit electronic returns:

- Banks and various other financial organisations.
- State institutions whose turnover exceeded AMD 100 million in 2008.
- Other organisations whose turnover exceeded AMD 500 million in 2008.

From 1 July 2010, the tax authorities envisage that other organisations whose turnover exceeded AMD 100 million in 2009 will also be able to submit tax returns electronically.

Information on tax invoices

Under the law, VAT taxpayers are required to submit details of all sale and purchase invoices exceeding AMD 100,000 in value with their VAT return.

From January 2009, the law was amended so that failing to submit accurate details may result in input tax credits being disallowed. Potentially something as basic as transposing an invoice number could result in a loss of VAT credits. At the same time, another amendment allowed VAT payers who identify errors in the data submitted to file adjusted information.

On 3 April 2009, the State Revenue Committee issued a new procedure on submitting and adjusting information on tax invoices. Specific points to note are:

- If a taxpayer fails to submit information by the 25th day of the month following the reporting period, the procedure indicates that the input tax should be credited in the return for the period when the information was submitted. Thus, if a monthly payer submits May 2009 information on 26 June 2009, the corresponding input tax would be deferred until the June VAT return.

- If the required information is not submitted or does not correspond to the data presented in tax invoices, the procedure indicates that taxpayer may not claim an input tax credit from the purchase. However, mistakes related to the name of the supplier or buyer, and the total amount of the invoice, will not result in adjustments.

According to the procedure, incorrectly reporting the TIN of the seller, invoice number, date, or the VAT amount will result in input tax credits being disallowed.

- The procedure also contains complex rules for determining the period in which invoices should be reported.

(Order No. 808-N dated 3 April 2009, published in Official Journal No. 27 (693))

Our comment: A small number of countries have embarked on initiatives to capture information on VAT invoices for matching purposes, but there is no evidence that the process is effective.

There may also be a question about whether the procedure is consistent with the law, particularly concerning the implications if information is submitted late.

In the longer term, it is hoped that the government will recognise that its current initiatives may be misguided and seek to put more balanced compliance rules in place. In the meantime, taxpayers will need to pay close attention to the accuracy and timeliness of information they submit, as the tax authorities have sent a clear signal that they will act on errors in data.

In addition, it would be prudent for taxpayers to conduct regular internal reviews to make sure that VAT data has been reported accurately.

Concession for small businesses

The Government introduced a moratorium on inspection for small businesses. The aim is to create more favorable conditions for small and medium businesses to overcome the negative effects of the financial crisis.

Until 1 January 2011, State bodies other than the State Revenue Committee will not carry out checks for business entities whose turnover (including VAT) for 2008 was less than AMD 70 million during 2008. The moratorium will not apply to criminal and limited other actions, but there must be a written agreement by the Prime Minister before a review may proceed.

(http://www.gov.am/am/news/item/7323)