

TAX GUIDE ARMENIA

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GENERAL RULES AND IMPORTANT POINTS IN THE TAX SYSTEM OF ARMENIA

The Armenian tax system is closely related to the accounting system, which are both based on the IFRS standards. They are interrelated, thus, in Armenia, apart from tax experts and tax lawyers, most accountants are also familiar with the tax legislation and tax system.

For that reason, similarly to other countries, accountants should have in depth knowledge in the tax sphere as they are responsible for the tax compliance.

In this Tax Booklet (hereinafter – the “Booklet”), we have reviewed the main taxes in Armenia in order to provide general information to the beneficiary of the Booklet who is interested in Armenian tax legislation. We will cover both state and local taxes such as VAT, corporate profit tax, withholding profit tax, turnover tax.

Please note that the Booklet provides general information and some cases may require further study. We have made the best effort to include as much information as possible, trying to maintain the balance and basic principles of the current Tax Code of the Republic of Armenia.

Since 2015, the Government of Armenia has provided favourable tax conditions for exporting IT companies that meet certain requirements.

Armenia is a long-standing member of the Organisation for Economic Co-operation and Development (OECD) and participates in most of the conventions supported by the OECD. Therefore, Double Tax Treaties concluded by Armenia are based on the OECD model version. Armenia has also recently ratified The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (“Multilateral Instrument” or “BEPS MLI”).

PROFIT TAX

Profit tax payers are considered:

I Resident organisations, except for:

- a. The Republic of Armenia represented by state bodies
- b. Communities of the Republic of Armenia in the form of community management institutions
- c. The Central Bank of the Republic of Armenia
- d. Diplomatic missions and consular institutions, international organisations accredited in the Republic of Armenia
- e. The Compensation Fund established on the basis of the law of the Republic of Armenia “On Compensating for the Damages Caused to the Life or Health of Servicemen During Defence of the Republic of Armenia”

II Registered in the Republic of Armenia:

- a. Sole proprietors (individual entrepreneurs)
- b. Notaries

III Contractual investment funds registered in the Republic of Armenia (except for pension funds and guarantee funds)

IV Non-resident organisations, as well as non-resident individuals carrying out activities in the Republic of Armenia through a permanent establishment and / or receiving income from sources in the Republic of Armenia through a permanent establishment.

The profit tax objects shall be the following for:

- 1) Resident organisations, individual entrepreneurs and notaries registered in the Republic of Armenia - gross income received or receivable, except for personal income of individual entrepreneurs and notaries
- 2) Investment funds and securitisation funds - the amount of net assets
- 3) Non-resident organisations - gross income received from the sources of the Republic of Armenia.

There are several differences in tax rates applicable to the income for resident and non-resident taxpayers.

Resident Taxpayer	Tax Rate	Deadline
Resident taxpayer and a non-resident taxpayer operating in the Republic of Armenia through a permanent establishment	18 %	April 20th of the following year
Investment funds registered in the Republic of Armenia (except for pension funds and guarantee funds).	0.01 %	April 20th of the following year
The individual Entrepreneurs operating under turnover tax regime, pay monthly AMD 5,000 profit tax	AMD 5,000	April 20th of the following year

At the same time, quarterly prepayments of profit tax are made in the amount of at least 20% of the previous tax year's profit tax and the amount calculated as 2% of the income received during the previous quarter shall be paid by the VAT payer. The deadline for such payments is the 20th day of the last month of a given quarter.

VALUE ADDED TAX

For residents and
Permanent
Establishment:
a calendar month

Tax period for VAT
non-resident with
no Permanent
Establishment:
a calendar quarter

Organisations, individual entrepreneurs (IE) and notaries registered for VAT are considered VAT payers. Transactions where the place of supply is Armenia, provision of services and import are considered to be subject of VAT. The general VAT rate in Armenia is 20%, but there are also 0% VAT and VAT exempt transactions in Armenia.

When a taxpayer registers as a VAT payer:

- Compulsory registration, if annual sales turnover exceeds EUR 275,000.
- Voluntarily registration is possible at a taxpayer's choice.

	Armenia	Russia
Tax-payer	Companies, IE registered as VAT payers	Companies
	Entities importing goods	Entities moving goods across borders
VAT rate	General – 20 %	General – 20 %
	Export of goods, international transport, sale of fuel and lubricants by airports, retail sale of goods in duty-free shops – 0 %	Sales of food products, children's goods, books, medical goods – 10 %
	Services related to education, scientific research activities, performance of non-governmental, charitable and religious works, provision of medical and healthcare services, distribution of newspapers and magazines - exempted	Export of goods, international transport and telecommunications – 0 %
	Within the EAEU: 0 %. The application of zero rate VAT in respect to transactions involving the supply of goods having status of the EAEU product exported to the EAEU member states from Armenia shall be justified on the day on which the exporter submits an export tax declaration to the tax authority	Within the EAEU: No VAT – 0 %
	Outside the EAEU: 0 % Must be documented for export confirmation	Outside the EAEU: 0 % Requires a list of documents for export confirmation

TURNOVER TAX

The reporting period for turnover tax is a calendar quarter

Turnover Tax (TT) is a state tax in Armenia that replaces VAT and / or profit tax and is paid to the state budget.

A resident commercial organisation, individual entrepreneur and notary whose sales turnover from all types of activities did not exceed EUR 275,000 during the current tax year may be considered as turnover taxpayers.

Turnover taxpayers cannot include:

- Banks, credit organisations, insurance companies, investment companies, pawnshops, as well as persons engaged in currency exchange activities, casinos, payment and settlement organisations
- Branches and representative offices
- Commissioners and interrelated companies

Turnover taxpayers can include:

- VAT payers who have submitted statements to the tax authorities before 20 February of the given tax year
- A commercial organisation or individual entrepreneur who are no longer considered micro-enterprises
- Organisations that did not carry out activities before 20 February.

Turnover tax base is the sales turnover of the taxable transactions.

Type of Income	Rate (%)
Income received from commercial (purchase and sale) activities*	10% with ability to deduct the 9.5% of expenses that are properly documented
Income received from production activities	7%
IT companies	1% / if the activity is registered as other activities, the turnover tax is 10% with ability to deduct 6% of expenses that are properly documented

* Excluding incomes received from commercial (purchase and sale) activities of secondary raw materials included in the list defined by the Government and alienation of immovable property.

EXCISE TAX



The reporting
period for excise tax
is a calendar
month

Excise tax is a state tax paid to the state budget by organisations or IEs who carry put operations recognized as objects for excise taxation. Excise tax is selectively levied on excisable goods either produced in Armenia or imported to Armenia.

The tax base for excisable goods is the quantity (volume) of goods expressed in in-kind measurement units.

Excisable goods shall be:

- Ethyl spirit (except for cognac spirit)
- Beer
- Wine
- Tobacco products (including substitutes, cigars)
- Lubricating oil
- Petrol
- Diesel fuel
- Crude oil
- Mineral oils
- Oil gases
- Hydrocarbons (except for uncompressed natural gas)
- Compressed natural gas.

Exempted transactions:

- Export of excisable goods from Armenia to a third party or a EAEU member state
- Supply of excisable goods to duty-free shops
- Supply of non-bottled cognac with alcohol concentration of 40% and higher
- Transfer of ow

PERSONAL INCOME TAX (PIT)

Both resident and non-resident individuals are considered as PIT payers.

The object of PIT shall be deemed to be:

- for resident individuals: gross income received from sources of the Republic of Armenia and (or) from sources outside the Republic of Armenia
- for non-resident individuals: gross income received from the sources of the Republic of Armenia.

The PIT is withheld by the employer and reported to tax authorities. But starting the 1st of January, in case the individual is both a Citizen and a Resident of Armenia, and receives one or more types of the below-mentioned incomes, he/she has to submit self-declaration on annual basis.

Income	Tax rate
Income from tax agent	20 %
Interest received from bank deposits	10 %
Royalties	10 %
Rent	10 % If the rent amount exceeds EUR 120K annually, additional 10% on the exceeding part
Dividends	5 %
Alienation of property	10 %

If the supporting documentation do not exist, the above-mentioned types of income are taxed at 20%.

Salaries are taxed by:

- Income Tax (20%)
- Social Fee
- Stamp fee

The calculation is as follows (continued on next page)

I. Armenia simulation of payroll taxation, EUR (€)

Gross salary		Rate	647 €	1,299 €	2,637 €	%, for 500 €	%, for 1,000 €	%, for 2,000 €	Average %
OPC	Obligatory pension contributions	If gross salary ≤ 500,000 AMD = 5% ≤ 1,125,000 AMD = 10% - 25,000 AMD > 1,125,000 AMD = 87,500	34 €	79 €	202 €				
SP	Stamp payment	If gross salary is ≤ 100,000 AMD = 1,500 AMD ≤ 200,000 AMD = 3,000 AMD ≤ 500,000 AMD = 5,500 AMD ≤ 1,000,000 AMD = 8,500 AMD > 1,000,000 AMD = 1,5000 AMD	13 €	20 €	35 €				
PIT	Personal income tax	20 %	100 €	200 €	400 €				
Net salary			500 €	1,000 €	2,000 €	77 %	77 %	76 %	77 %
Total employer			147 €	299 €	637 €	23 %	23 %	24 %	23 %
Total taxes			147 €	299 €	637 €				

II. Russian simulation of payroll taxation, EUR (€)

Gross salary		Rate	575 €	1,149 €	2,299 €	%, for 500 €	%, for 1,000 €	%, for 2,000 €	Average %
PIT	Personal income tax	13% (15% on the year-to-date salary amounts exceeding RUB 5 million)	75 €	149 €	299 €				
Net salary			500 €	1,000 €	2,000 €	87.0 %	87.0 %	87.0 %	87.0 %
CT	Employer Social Contributions regular rate	30% (15.1% on the amounts exceeding the year-to-date marginal base of RUB 2.25 million)	173 €	345 €	569 €				
OAI	Occupational accident insurance	0.2% - 8.5%	1 €	2 €	5 €				
Total employee			75 €	149 €	299 €	13.0 %	13.0 %	13.0 %	13.0 %
Total employer			174 €	347 €	574 €	30.2 %	30.2 %	24.9 %	28,4 %
Total taxes		13 %	249 €	496 €	873 €	43.2 %	43.2 %	37.9 %	41.4 %

WITHHOLDING TAX (WHT)

Income of non-residents from sources in Armenia is subject to WHT in Armenia. At the same time, WHT is withheld from the income payable to a non-resident by a tax agent, responsible for the calculation, withholding (collection) of taxes or fees from their income and paying them to the state budget of the Republic of Armenia.

A tax agent is an organisation registered with the tax authority of Armenia as a taxpayer.

Payments to non-residents are subject to the following WHT rates:

Type of income	WHT rate
Insurance, reinsurance, and transportation payments	5 %
Interests, royalties, income from the lease of property, and capital gains (except for capital gains from the sale of securities)	10 %
Dividends	5 %
Capital gains from sale of local securities	0 %
Capital gains received by non-residents from the sale of securities held by another organisation	18 %
Other income (from services) received from Armenian sources	20 %

WHT must be transferred to the budget not later than the 20th day following the quarter in which the date of the income payment occurred. The WHT return is to be submitted not later than the 20th day following the reporting quarter.

WHT rates for non-residents may be reduced in accordance with the relevant tax treaty. Double tax treaties (DTTs) affect income and tax capital. Armenia currently has active DTTs with more than 48 countries. Tax rates vary depending on the country with which the DTT is signed. Please see the examples below:

Type of income	Reduced Tax Rates under DTT
Dividends	In some countries, 0% or 3% may apply in certain cases
Interest	In some countries, 0%, 5% or 8% may apply in certain cases
Royalty	In some countries, 5% to 8% may apply in certain cases

The treaties create favourable conditions for non-residents to operate in Armenia, but there are some factors that affect the application of DTTs. For example:

- A non-resident must provide the tax authorities with a residence certificate, which may be required by them
- If a non-resident company has a permanent establishment in Armenia, DTTs cannot be applied to the amount of income attributable to that permanent establishment.

Most DTTs follow the model version of the DTT recommended by the OECD.

PERMANENT ESTABLISHMENT

In the Republic of Armenia, a permanent establishment of a non-resident organisation shall be deemed to be any place of activity through which the non-resident organisation carries out business activities in the territory of the Republic of Armenia, irrespective of the period of activity.

Examples of a permanent establishment are:

- 1 any place of production, processing, assembling, repacking, packaging and (or) delivery of goods
- 2 any place of administration
- 3 any place of activity related to gaming machines, computer networks and communication channels, installation, adaptation and operation of amusement rides, as well as transport or other infrastructure
- 4 the place of sale of goods in the territory of the Republic of Armenia
- 5 any place for carrying out construction activities and (or) construction and installation works, as well as rendering supervisory services in connection with the implementation of these works
- 6 the location of the representative office or branch.

The DTT should also be considered when analysing a particular case, as the DTT has specific provisions regarding permanent establishment. For example, the Armenian Tax Code states that a construction site or a construction, assembly or installation project, as well as supervisory activities in connection therewith, constitute a permanent establishment, but only if such site, project or activities continue for more than 183 days (6 months). Whereas in DTTs, for example with Germany, this period extends to 9 months.

TRANSFER PRICING (TP)

Transfer pricing regulations must be taken into account when carrying out transactions between non-resident and Armenian resident companies. If the amount of annual controlled transactions between related parties exceeds approximately EUR 480,000 (the exact amount is AMD 200 million), the tax authorities check the compliance of the controlled transactions with the arm's length principle, as well as the completeness of the calculation and payment of the tax on profit resulting from the controlled transactions.

Transfer pricing methods are:

- the comparable uncontrolled price method
- the cost plus method
- the resale price method
- the profit split method
- the transactional net margin method.

When surpassing the threshold, taxpayers are obliged to submit TP notification by April 20 of the following year. After submitting the notification, the tax authorities may request TP documentation, which must be provided within 30 days. In case of failure to submit the notification or documentation, the tax authorities impose fines in the following amounts:

1. The failure to submit TP Notification in case of existence of Controlled transaction penalty originates in the amount of
 - 1.2 USD 12,500 (AMD 5 million) – in case the Gross Revenue of the previous year exceeds USD 5 million (AMD 2 billion)
 - 1.3 USD 7,500 (AMD 3 million) – in case the Gross Revenue of the previous year exceeds USD 2,5 million (AMD 1 billion)
 - 1.4 USD 2,500 (AMD 1 million) - in case the Gross Revenue of the previous year is less than USD 2,5 million (AMD 1 billion)
2. Penalty for failure to submit documentation in time upon request of the tax authorities
 - 10 % of the amount of all controlled transactions
 - 0.04 % for each day of late payment.

TAX INVOICE (DELIVERY OF GOODS)

[1] Date of Issue			[2] Category		[3] Number	
[4] Date of Delivery			Invoice to adjust			
			Serial		Number	
Contract	[5] Dated	[6] Number	Date			
[7] Misc. Data						
Transaction Number						
[7.1] Serial Number of receipt						

Data of the shipper of the Gods							
[8] Taxpayer Identification Number (TIN)							
[9] Name	Limited Liability Company						
[10] VAT payer Identification Number							
[11] Name of the Bank							
[12] Place of Business (adress)							
[13] Adress of Place of Shipment							
[14] Additional Data							

Data of the accepting Company							
[15] Taxpayer Identification Number (TIN)							
[16] Name	Limited Liability Company						
[17] VAT payer Identification Number							
[18] Name of the Bank							
[19] Place of Business (adress)							
[20] Additional Data							
[21] Through whom	First Name, Last Name						
	Power of Attorney	Number					
		Date					
[22] Mode of Shipment of Goods							
[22] Destination of Shpping Goods							

[24] Calculation of Quantity and Proce of Delivered Goods										
Name of Goods	Unit Name	Quantity	Unit Price	Discount (%)	Price	Load	VAT Rate (%)	VAT Value	Total	Including,
1	2	3	4	5	6	7	8	9	10	11
Total										

Seller _____
 Date, Name, Surname

Buyer _____
 Date, Position, Name, Surname



UNLOCKING BUSINESS GROWTH IN ARMENIA

Founded by Ulf Schneider in 2003, SCHNEIDER GROUP is an international consulting company providing services and expertise to support international businesses as they enter markets and grow their business in Eastern Europe, Central Asia and the Caucasus. With offices in 15 countries, the company has excellent opportunities to work with clients operating in different regions and industries, and can leverage its extensive experience to provide a full range of business services across the region.

Opened in 2018, the Yerevan office of SCHNEIDER GROUP has grown to establish itself as a strong service provider for market entry and business expansion in Armenia. Over 5 years more than 40 foreign companies successfully started and expanded their business in the Armenian market supported by our team of 15 local experts for tax, legal, accounting and HR.

Armenia boasts a broad range of agricultural and industrial resources, serving as a solid foundation for economic development. Changes in the geopolitical landscape have allowed the country to capitalise on its strategic position and diverse economic resources to leverage opportunities for regional collaboration. Ongoing efforts to improve the business climate and strengthening bilateral relations with key partners, including the European Union, Asia and the United States are creating a more conducive environment for both local and international business, fostering growth and attracting investment.

* Key facts about Yerevan office

- * 15 employees, including 5 legal and tax experts
- * 40 clients, 70% of clients are from the EU
- * Member of DWV, AmCham, EBA and UATE
- * Official representative of German Association of Small and medium-sized businesses (BVMW) in Armenia

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