



**COUNTRY  
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# **The Legal 500 Country Comparative Guides**

## **Armenia TAX**

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This country-specific Q&A provides an overview of tax laws and regulations applicable in Armenia.

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# ARMENIA TAX



## 1. How often is tax law amended and what is the process?

The tax legislation is changed several times a year, but the Tax Code of the Republic of Armenia has a limitation that the laws providing for the definition of a new type of tax, an increase in the tax rate can enter into force from the beginning of the tax year following the tax year that includes the date of adoption of these laws, but not earlier than those laws. from the beginning of the seventh month following the month including the date of official publication.

The procedure for adopting a law in Armenia is as follows: first, the competent state body (in tax cases – State Revenue Committee, Ministry of Finance) circulates (including on the Internet website) the draft law, receives recommendations or comments from other state bodies and the community, summarizes them. Then it submits the draft to the Government for consideration after which the Government submits the draft law for consideration by the National Assembly. The latter adopts it in two readings and sends it to the President of the Republic for signature, after which the law is published on the official website and is considered adopted on the day indicated in it, observing the above-mentioned limitation.

## 2. What are the principal administrative obligations of a taxpayer, i.e. regarding the filing of tax returns and the maintenance of records?

Business entities are obliged to calculate and pay taxes independently. They are obliged to independently fill in and submit tax reports within the deadlines set by law.

## 3. Who are the key tax authorities? How do they engage with taxpayers and how are tax issues resolved?

Tax control in the Republic of Armenia is carried out by

the State Revenue Committee.

The Committee keeps records of business entities, monitors the compliance of their activity with tax legislation, conducts inspections, studies, proposes to make clarifications to the submitted tax calculations, attracts business entities to the responsibility provided for by Tax legislation, to ensure the collection of tax obligations, imposes an arrest on the taxpayer's property.

## 4. Are tax disputes heard by a court, tribunal or body independent of the tax authority? How long do such proceedings generally take?

The actions of the tax authority or the acts adopted by it (for which, for example, an additional tax obligation is imposed on the taxpayer) may be appealed to the tax authority, which, based on the complaint, carries out administrative proceedings and changes its act or rejects the complaint. It may take about 2 months.

Consideration of the case in court (also consideration of appeals in the courts of Appeal and Cassation) may take more than 2 years.

## 5. What are the typical deadlines for the payment of taxes? Do special rules apply to disputed amounts of tax?

Depending on the type of tax, the terms of their payment vary: VAT as well as income tax withheld from wages is paid until the 20th of the next month, income tax – until April 20th of the next year, turnover tax – until the 20th of the next quarter.

## 6. Are tax authorities subject to a duty of confidentiality in respect of taxpayer data?

According to the tax legislation, any information received by a tax authority or a tax official about the

activities of a taxpayer, a taxpayer, is considered a tax secret, with the exception of:

- a. information published by the taxpayer or with his consent,
- b. information about the taxpayer's identification number,
- c. information included in the taxpayer's charter,
- d. information about violations of the requirements of legal acts regulating tax relations and applied liability measures.

The tax authority is obliged to maintain tax secrecy. It can be granted only in cases stipulated by law (for example, on the basis of a court decision).

## **7. Is this jurisdiction a signatory (or does it propose to become a signatory) to the Common Reporting Standard? Does it maintain (or intend to maintain) a public register of beneficial ownership?**

Currently Armenia is not a member state for CRS. However, on 15/02/2023 was announced that Armenia has committed to implement the international Standard for Automatic Exchange of Financial Account Information in Tax Matters (AEOI) by 2025.

In the Republic of Armenia, a system of registration of real beneficiaries was introduced for the purpose of combating money laundering and terrorist financing. A legal entity registered in the territory of the Republic of Armenia is obliged to submit a declaration of its beneficial owners to the agency. The register of declarations is not public, but the state possesses information on the real beneficiaries of legal entities. Moreover, submitting false information about the real beneficiaries or concealing the information to be submitted is subject to criminal liability.

## **8. What are the tests for determining residence of business entities (including transparent entities)?**

The Tax Code of the Republic of Armenia defines that a resident organization is an organization whose location is the Republic of Armenia. The location of a legal entity is the location of its permanent establishment.

## **9. Do tax authorities in this jurisdiction**

## **target cross border transactions within an international group? If so, how?**

In Armenia export taxes are not applied. The tax authority targets cross-border transactions when it comes to import. This process is regulated by the Customs Code of the Eurasian Economic Union (hereinafter referred to as the Union) (in this answer hereinafter referred to as the Code). According to the Code goods transported across the customs border of the Union and other goods in the cases defined by the Code are subject to formalization by customs procedures in order to be located and used in the customs territory of the Union, to be exported from the customs territory of the Union and (or) to be located and used outside the customs territory of the Union. Depending on the purposes of the goods being located and used in the customs territory of the Union, exported from the customs territory of the Union and/or being located and used outside the customs territory of the Union, the following customs procedures are applied to the goods:

- 1) exemption for domestic consumption;
- 2) export;
- 3) customs transit;
- 4) customs warehouse;
- 5) processing in the customs territory;
- 6) processing outside the customs territory;
- 7) processing for domestic consumption;
- 8) free customs zone;
- 9) free warehouse;
- 10) temporary import (permit);
- 11) temporary export;
- 12) re-importation;
- 13) re-export;
- 14) duty-free trade;
- 15) destruction;
- 16) waiver in favor of the state;
- 17) special customs procedure.

Depending on the nature of the transaction, the Code specifies the amount of the tax and the terms of the

payments. Normally 10% customs duty and 20% import VAT should apply.

### **10. Is there a controlled foreign corporation (CFC) regime or equivalent?**

In Armenia there is not explicitly stipulated the controlled foreign corporation regime application possibility.

The equivalent may be considered the regime implemented for representative offices or branches of non-resident organizations as permanent establishments of non-resident organizations.

As non-resident organizations carry out their business activities in Armenia through their representative offices or branches (hereinafter referred to as permanent establishment), the Tax Code specifies that the location of the non-resident organization is the location of the permanent establishment that is to say the Republic of Armenia. So, the permanent establishment is considered as a resident organization. Consequently, the Tax Code applies to the taxation of the non-resident organizations' permanent establishment's business activity.

### **11. Is there a transfer pricing regime? Is there a "thin capitalization" regime? Is there a "safe harbour" or is it possible to obtain an advance pricing agreement?**

● Transfer pricing in controlled transactions is a procedure for determining financial indicators (in particular, price, surcharge, gross, operating or net profit ratio, analyzed using transfer pricing methods), established by the Tax Code of the Republic of Armenia.

The transaction of supply of goods, alienation of intangible assets, provision (receipt) of the right to use intangible assets, granting (receipt) of loans, assignment (transfer) of the right to a monetary claim, alienation (acquisition) of a financial asset, performance of works and (or) provision of services is considered controlled if it is executed between resident and non-resident persons deemed to be controlled.

1) Transfer pricing rules apply to transactions between parties that are controlled and if the amount of all controlled transactions carried out by the taxpayer during the tax year exceeds AMD 200 million (net of VAT, excise tax, and environmental tax).

2) The compliance of controlled transactions with the principle of market relations, as well as the completeness of the calculation and payment of CIT and

payment for the use of mineral resources (royalty) are being checked by the tax authority.

3) If the amount of all controlled transactions during the tax year exceeds the amount of AMD 200 million, the taxpayer must submit a notification of controlled transactions to the tax authorities no later than 20 April of the year following the tax period.

● The tax legislation of the Republic of Armenia does not provide thin capitalization provisions. However, there are some rules on tax deductions:

● Concerning the safe harbour the Tax Code stipulates that tax liability ceases in these cases:

1) when it is performed;

2) when a tax exemption for tax liability exemption or reduction is established in the amount of the exempted or reduced liability;

3) when the bankruptcy case of an organization or an individual is terminated by a legally binding judgment of the court, and there is no person who, according to the Code, is responsible for the fulfillment of the tax obligation;

4) when it becomes unreliable and after becoming unreliable within five years, it is not charged;

5) when a natural person dies.

● The Armenian tax legislation does not provide an opportunity to obtain an advance pricing agreement.

### **12. Is there a general anti-avoidance rule (GAAR) and, if so, how is it enforced by tax authorities (e.g. in negotiations, litigation)?**

General anti-avoidance rule (GAAR) in Armenian tax legislation is being implemented via tax control. According to the Tax Code of RA the tax control is the state control over the fulfillment of the requirements of the legal acts assigning control powers to the tax authority, the set of actions of the tax authority (officials) provided by the Code within the powers assigned to the tax authority.

The purpose of tax control is to find out compliance with the requirements of the legal acts granting control powers to the tax authority, to prevent and thwart violations of these requirements, to detect them, to adjust the tax obligations in the cases and in the order defined by the legal acts granting control powers to the

tax authority, including independent calculation and recalculation, as well as applying responsibility for detected violations.

Tax control is carried out through:

1. tax audits,
2. tax studies or
3. operational investigative measures.

**13. Is there a digital services tax? If so, is there an intention to withdraw or amend it once a multilateral solution is in place?**

In Armenia digital service tax is not being applied.

**14. Have any of the OECD BEPS recommendations, including the OECD's recent two-pillar solution to address the tax challenges arising from digitalisation of the economy, been implemented or are any planned to be implemented?**

According to OECD's "Compilation of 2022 Peer Review Reports: Inclusive Framework on BEPS: Action 13", it was recommended Armenia to take steps to implement a domestic legal and administrative framework to impose and enforce CbC reporting requirements as soon as possible. This recommendation has been implemented by the Legislator.

Concerning the recommendation on automatic exchange of tax information it should be noted that Armenia takes part in the agreement on electronic exchange of information between Commonwealth of Independent States (CIS) member states for the purpose of tax administration.

In addition, it is remarkable, that the Customs Code of the Eurasian Economic Union (EAEU) and the decisions of the Government of the Republic of Armenia provide for the use of special DATA matrix codes designed to determine the traceability of products in order to obtain information about the product and the manufacturer of the product passing through the customs point.

**15. How has the OECD BEPS program impacted tax policies?**

OECD base erosion and profit shifting (BEPS) program contributes to the development of taxation transparency and tax avoidance.

**16. Does the tax system broadly follow the OECD Model i.e. does it have taxation of: a) business profits, b) employment income and pensions, c) VAT (or other indirect tax), d) savings income and royalties, e) income from land, f) capital gains, g) stamp and/or capital duties? If so, what are the current rates and how are they applied?**

a. According to the Tax Code of RA within the framework of the general taxation system, business organizations, individual entrepreneurs and notaries are taxed, in particular, by VAT and (or) profit tax.

b. Income tax (20%), social contribution (mandatory accumulated pension) and servicemen's insurance fund stamp duty are deducted from the salary.

c. The following transactions and operations are considered objects of VAT taxation:

- 1) supply of goods, if the place of supply of goods is considered to be the Republic of Armenia;
- 2) performance of work and (or) provision of service,
- 3) Import of goods to the Republic of Armenia under the customs procedure "Release for domestic consumption".
- 4) Import of a product with the status of an EAEU product from the EAEU member states to the Republic of Armenia.

On the contrary, pensions are not subject to taxation according to the Tax Code of the Republic of Armenia.

d. According to the Tax Code of the RA the savings income is not subject to taxation. On the contrary, royalties are subject to income taxation at the rate of 10%.

e. It should be specified whether a transaction is being done to the land or not. If the land is being sold or given for rent, it is subject to income tax. If there are no transactions concerning the land, it is subject to real estate taxation.

f. The Tax Code of RA doesn't prescribe special capital gains as taxable objects. Gains from the disposal of assets are included in taxable income and are subject to income taxation.

g. There are no stamp duties or capital taxes or duties in the Republic of Armenia.

### 17. Is business tax levied on, broadly, the revenue profits of a business computed in accordance with accounting principles?

Yes, the business tax is levied on. The type of tax depends on the type of activity of the legal entity, or the amount of turnover specified by the Tax Code. Particularly, the revenue profits are levied on according to the profit tax regulations specified by the Tax Code.

### 18. Are common business vehicles such as companies, partnerships and trusts recognised as taxable entities or are they tax transparent?

According to the Tax Code, RA resident and non-resident natural persons, RA resident and non-resident organizations, the permanent establishment of a non-resident organization or a non-resident natural person are considered tax-paying entities.

The tax exemption is provided as a tax benefit by the Tax Code of the Republic of Armenia.

For example, transactions and operations of public educational institutions, creative and aesthetic centers for children and youth, musical, painting, art and fine arts educational institutions etc. are exempted from VAT.

### 19. Is liability to business taxation based on tax residence or registration? If so, what are the tests?

In general, the liability to business taxation is not solely based on tax residence. In principle, both – resident and non-resident organizations may be subject to taxation. The tax residence is taken into account when determining the type and consequently – the amount of the tax.

If a non-resident, acting without permanent representation, enters into a transaction with a resident company, the resident company becomes responsible for paying the non-resident's taxes in the Republic of Armenia (RA) as the non-resident's tax agent.

### 20. Are there any favourable taxation regimes for particular areas (e.g. enterprise zones) or sectors (e.g. financial services)?

The RA Tax Code defines special taxation systems for special categories. Special taxation system includes the

turnover tax and micro-entrepreneurs taxation.

- The payers of turnover tax are commercial organizations, individual entrepreneurs and notaries, whose turnover of the previous year did not exceed AMD 115 million.

The turnover tax replaces the CIT and VAT. Turnover tax rates range from 1.5 percent to 25 percent,<sup>46</sup> depending on the type of business activity, the most notable of which are as follows:

- trading activities – 5 percent;
- production activities – 3.5 percent; and
- income from rents, interest, royalties, and immovable property – 10 percent.

- Resident commercial organizations whose sales turnover does not exceed AMD 24 million can opt to be taxed under the micro-enterprise regime, subject to certain conditions. Under this regime, business entities are exempt from regular business income taxation, including CIT, turnover tax, and VAT.

Instead, micro-enterprises are required to pay, by the 20th day of the month following the month to which the payment relates, a fixed monthly amount equivalent to **AMD 5,000 for each hired employee**. However, micro-enterprises under this regime continue to be liable for paying certain other taxes, such as import and excise taxes, monthly employee payroll taxes, and the environmental tax. Certain entities are excluded from the regime, including banks, insurance companies, investment companies, traders operating in the city of Yerevan, and businesses providing advisory, legal, accounting, and other specified services. Individual entrepreneurs can also benefit from this regime.

To motivate the development of the innovative technologies the Legislator provided reduced taxes for IT companies. In particular, the income tax is reduced **to the rate of 10%**. This regulation applies until December 31, 2023.

### 21. Are there any special tax regimes for intellectual property, such as patent box?

The income received or to be received from the use of intellectual property and other non-property rights of the taxpayer is called royalty. Royalty is considered to be, in particular, an invention, patent, copyright in literature, science or art, including motion pictures for television or



radio communication, audio and video recordings, computer software, certificate, trademark, drawing or model, scheme, secret formula or process or industrial, revenue for commercial or scientific use of information or expertise.

Income tax on royalties is calculated at the rate of **ten percent**.

## **22. Is fiscal consolidation permitted? Are groups of companies recognised for tax purposes and, if so, are there any jurisdictional limitations on what can constitute a tax group? Is there a group contribution system or can losses otherwise be relieved across group companies?**

In the Armenian tax legislation, there is no group contribution system explicitly mentioned or implemented.

However, the state policy in the tax field includes the provision of tax benefits. Depending on the type of tax payer(s) the organization(s) is/are, it is possible to use the privileges provided for each type of tax provided by the Tax Code.

## **23. Are there any withholding taxes?**

Payments to non-residents are subject to the following withholding taxes rates:

1. Payments for **insurance, reinsurance, and transportation** are subject to Withholding tax at the rate of 5%.
2. **Interests, royalties, income from the lease of property, and capital gains (except capital gains from the sale of securities)** are subject to withholding taxes at the rate of 10%, and the dividends paid to non-residents are subject to withholding tax at 5% rate.
3. Capital gains from the sale of securities are subject to withholding tax at the rate of 0%.
4. Other income (from services) received from Armenian sources is subject to withholding tax at the rate of 20%.

Withholding tax is required to be transferred to the budget not later than the 20th day following the quarter that includes the date of the income payment. A withholding tax return should be submitted by the 20th day following the reporting quarter.

## **24. Are there any environmental taxes payable by businesses?**

The Tax Code of the Republic of Armenia provides for the payment of an environmental tax. Environmental tax is implemented on:

- 1) emission of harmful substances into the atmosphere.
- 2) discharge of harmful substances and (or) compounds into the water resource.
- 3) soil use, production and/or consumption waste:
  - a. placing in specially allocated places,
  - b. storage in specially allocated places.
- 4) products that harm the environment:
  - a. import into the territory of the Republic of Armenia,
  - b. alienation by importer-distributors and (or) producers-distributors in the territory of the Republic of Armenia.

## **25. Is dividend income received from resident and/or non-resident companies taxable?**

Dividends are subject to income tax as passive income at the rate of 5%.

## **26. What are the advantages and disadvantages offered by your jurisdiction to an international group seeking to relocate activities?**

In the Republic of Armenia state and local taxes are applied.

State taxes:

- 1) value added tax (hereinafter also VAT),
- 2) excise tax,
- 3) income tax
- 4) environmental tax,
- 5) road tax
- 6) turnover tax

Local taxes:

1) real estate tax

2) vehicle property tax.

Armenian tax legislation provides different opportunities for the business organizations. Apart from the general taxation regimes the Tax Code of the RA provides special

tax regimes as well as deductions for specific types of business activities or the turnover amount.

Taxation in Armenia is flexible, there are various types of taxes so the choice is large as well as there are special regulations on deductions or exemptions, transfer pricing and anti-avoidance policies are applied.

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