

## International Tax Armenia Highlights 2018



### Investment basics:

**Currency** – Armenian dram (AMD)

**Foreign exchange control** – Armenia does not restrict the flow of Armenian or foreign currency into or out of the country, although some reporting obligations apply.

**Accounting principles/financial statements** – International Financial Reporting Standards (IFRS) apply for Armenian entities in preparing and presenting financial statements.

**Principal business entities** – These are the joint stock company (open and closed), limited liability company, supplementary liability company, business partnership, sole proprietorship, cooperative and branch of a foreign company.

### Corporate taxation:

**Residence** – A company is resident in Armenia if it is established in Armenia (i.e. entered into the Armenian company register and registered with the tax authorities).

**Basis** – Resident companies are taxed on their worldwide income; nonresidents are taxed only on Armenia-source income.

**Taxable income** – For companies and individual entrepreneurs, taxable income is the positive difference between the taxpayer's gross income and allowable deductions. Examples of gross income include trading income, capital gains and income from financial activities.

**Taxation of dividends** – Dividends received from a resident company are taxed at rate of 20%. Dividend income is deemed to be received on the day when the meeting of shareholders (equity holders) makes a decision on the allocation of dividends from the company's profits related to the reporting year.

**Capital gains** – Capital gains for resident companies are taxed as ordinary income, at the corporate tax rate of 20%.

**Losses** – Losses may be carried forward for five years. The carryback of losses is not permitted.

**Rate** – The standard corporate tax rate is 20%, which applies to resident companies and to Armenian permanent establishments of foreign companies.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – A credit is granted for foreign tax paid by companies on income from foreign sources, up to the amount of Armenian tax payable on the foreign income. Any excess foreign tax paid may be carried forward to offset the corporate tax liability of subsequent reporting years.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Certain information technology (IT) companies are exempt from corporate tax on IT income. Resident companies engaged exclusively in exports are taxed at a rate of 5% if the total amount of goods exported exceeds AMD 40 billion in the reporting period, or at a rate of 2% if the total amount of goods exported exceeds AMD 50 billion in the reporting period.

Income from the production of agricultural products is exempt from corporate tax until 31 December 2024. Income from the production of handmade carpets is exempt from corporate tax.

Nonresident companies are exempt from corporate tax on interest income derived from Armenian government bonds denominated in foreign currency, on income

derived from the sale of such bonds and on other similar transactions.

Companies implementing a business plan approved by a decision of the Armenian government (except for resident corporate taxpayers carrying out activities in the trade or financial sector) are granted a tax credit equal to 100% of the salaries and equivalent fees payable during the relevant tax year for new jobs created within the framework of the business plan. The credit is available for the year of launching the business plan and the five subsequent tax years, but is limited to 30% of the actual corporate tax calculated for the relevant tax year.

**Other** – Presumptive tax and patent fee regimes are mandatory for certain types of activities.

#### Withholding tax:

**Dividends** – Dividends paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

**Interest** – Interest paid to a nonresident is subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

**Royalties** – Royalties paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty.

**Technical service fees** – No

**Branch remittance tax** – No

**Other** – Insurance compensation, reinsurance payments and freight payments made to a nonresident are subject to a 5% withholding tax. Capital gains derived by a nonresident from the sale of securities are exempt from withholding tax.

Payments made to a nonresident company for other types of income are subject to a 20% withholding tax.

#### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – Property tax for public and industrial structures is calculated at a rate of 0.3% of the tax base, with the tax base being the assessed cadastral value. The tax is due annually.

**Social security** – No, but see under “Other taxes on individuals”

**Stamp duty** – Stamp duty is levied on the grant of a license, and for carrying out certain types of activities.

**Transfer tax** – No

#### Anti-avoidance rules:

**Transfer pricing** – Armenia has introduced transfer pricing rules. For companies that carry out controlled

transactions, the tax base for corporate tax, VAT and/or royalty tax (for the use of natural resources) purposes must be determined based on prices or other financial indicators determined in accordance with the arm's length principle.

**Thin capitalization** – There are no specific thin capitalization rules, but limits exist on the deduction of interest expense. For corporate tax purposes, the interest expense on loans from entities other than banks and credit organizations may be deducted in an amount not exceeding nine times the positive value of the tax net assets of a taxpayer in the financial sector, and twice the net assets for other taxpayers.

**Controlled foreign companies** – No

**Disclosure requirements** – No

#### Compliance for corporations:

**Tax year** – Calendar year

**Consolidated returns** – Consolidated returns are not permitted. Each company must file a separate return.

**Filing requirements** – The annual tax return and annual accounting reports must be submitted by 20 April of the year following the reporting year.

Advance payments of corporate income tax must be made quarterly by the 20th day of the third month of each quarter. The advance payment is equal to 20% of the income tax reported by a company for the previous tax year. An alternative method of advance payments, equal to 2% of the income of the previous quarter, may be applied if the application of the alternative method is requested before 20 March of the current year.

The balance of tax due must be paid by 20 April of the year following the reporting year.

**Penalties** – Penalties apply for filing a late return or failure to file, and/or late payment.

**Rulings** – No

#### Personal taxation:

**Basis** – A resident individual is taxed on worldwide income; a nonresident is taxed only on Armenia-source income.

**Residence** – An individual is resident in Armenia if he/she is present in the country for a period exceeding an aggregate of 183 days in the tax year, starting or ending in any 12-month period, or if his/her center of vital interests is in Armenia.

**Filing status** – Each person must file a separate tax return; joint returns are not permitted.

**Taxable income** – Taxable income includes employment income (wages and salaries), capital gains, dividends,

interest and royalties, income from insurance, income from leasing, donations and assistance and other income.

**Capital gains** – Capital gains are taxed at a rate of 20%.

**Deductions and allowances** – Resident individuals with foreign-source income that is taxed abroad may be granted a foreign tax credit, up to the amount of Armenian tax payable on the foreign income. Any excess foreign tax paid may be carried forward to offset the income tax liability of subsequent reporting periods.

**Rates** – Income up to AMD 150,000 is taxed at a rate of 23%; income exceeding that amount and up to AMD 2 million is subject to a tax of AMD 34,500, plus 28% tax on the amount exceeding AMD 150,000; and income exceeding AMD 2 million is subject to a tax of AMD 552,500 plus 36% tax on the amount exceeding AMD 2 million.

Dividends received by foreign nationals and stateless persons are taxable at rate of 10%, unless the rate is reduced under a tax treaty. Dividends received by Armenian citizens are taxed at a rate of 5%. The income tax on dividends will be refunded if the dividends are reinvested in the same resident company in the same year they are received.

Interest and royalties are subject to tax at a rate of 10%.

The income tax on rental income is calculated at a rate of 10%; however, if the total rental income received during the tax year exceeds AMD 58.35 million, an additional income tax of 10% is calculated on the excess.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – Stamp duty is levied on the grant of a license, and for carrying out certain types of activities.

**Capital acquisitions tax** – No

**Real property tax** – Property tax is calculated on a tax base of the assessed cadastral value. The property tax rate depends on type of the property and the relevant threshold. Tax is due annually.

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – No

**Social security** – Employees whose date of birth is after 1 January 1974 generally must make social tax payments. (Before 1 July 2018, the social tax is optional for such employees who requested an exemption from social tax payments before 1 July 2014. However, after 1 July 2018, the social tax will be mandatory for these employees.) The rate is 5% on the employee's salary, but may not exceed AMD 25,000.

#### Compliance for individuals:

**Tax year** – Calendar year

**Filing and payment** – The tax return is due before 20 April of the year following the tax year in cases where tax is not withheld at source. The balance of tax due must be paid by 20 April of the year following the reporting year.

**Penalties** – Penalties apply for filing a late return or failure to file, and/or late payment.

#### Value added tax:

**Taxable transactions** – VAT is levied on the supply of goods and services, and on imports. Armenia also levies a turnover tax on individual entrepreneurs and commercial entities with prior-year revenue from the sale of goods and the provision of services not exceeding AMD 115 million (subject to certain exceptions).

**Rates** – The standard VAT rate is 20%, with a zero rate or an exemption applying to certain supplies. The turnover tax rates are as follows: 1.5% for income derived from commercial activity relating to secondary raw materials included on the list provided by the Armenian government, and for income derived by editorial offices from the sale of newspapers; 3.5% for income from manufacturing; 5% for income from a trade; 10% for income from the sale of property, passive income and income relating to public catering; 25% for income derived from the activity of lottery entities; and 5% for other income.

**Registration** – An entity generally must register for VAT purposes if its annual taxable turnover exceeds AMD 115 million.

**Filing and payment** – The VAT reporting period is the calendar month. VAT returns must be submitted and the VAT amount paid before the 20th day of the month following the reporting period.

**Source of tax law:** Income tax law, various bulletins issued by the government

**Tax treaties:** Armenia has treaties with more than 40 countries. Armenia signed the OECD multilateral instrument on 7 June 2017.

**Tax authorities:** Tax and customs authorities with the State Revenue Committee of Armenia

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