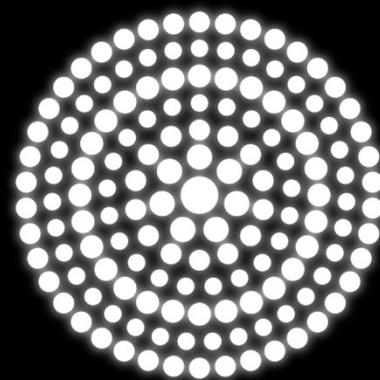


International Tax Armenia Highlights 2021

Updated January 2021



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. Quotations and payments between residents in Armenia must be made in AMD.

Accounting principles/financial statements: IFRS applies. The reporting year is the calendar year and financial statements must be filed annually.

Principal business entities: These are the joint stock company (open and closed), limited liability company, unlimited liability company, business partnership, sole entrepreneurship, cooperative, and branch of a foreign company.

Corporate taxation

Rates

Corporate income tax rate	18%
Branch tax rate	18%
Capital gains tax rate	18%

Residence: A company is resident in Armenia if it is incorporated and located in Armenia.

Basis: Resident companies and individual entrepreneurs are subject to corporate income tax on their worldwide income; nonresident companies are subject to corporate income tax on Armenian-source income only. Branches are taxed in the same way as subsidiaries.

Taxable income: The taxable income of a resident company or an individual entrepreneur is the positive difference between the gross income and allowable deductions. The taxable income of a permanent establishment (PE) of a nonresident company is the positive difference between the gross income derived from Armenian sources through the PE and allowable deductions. For a nonresident company without a registered PE, taxable income is the gross income derived from Armenian sources.

Rate: The corporate income tax rate is 18% for resident companies, individual entrepreneurs, and PEs of a nonresident company.

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: A resident company is granted a credit for dividends received. Dividend income is deemed to be received on the day the meeting of shareholders makes a decision on the allocation of dividends from the company's net income for the reporting year.

Capital gains: Capital gains are effectively treated as ordinary income for resident companies and registered PEs of a nonresident company, and are subject to corporate income tax at 18%.

Losses: Tax losses may be carried forward and set off against tax profits for the following five years. The carryback of tax losses is not permitted.

Foreign tax relief: A resident company is subject to corporate income tax on its worldwide income, with credit granted for overseas taxes paid up to the amount of tax assessable in Armenia on the foreign income. If the credit is higher than the corporate tax liability for a particular year, the excess amount may be carried forward and set off against income tax liabilities in subsequent years.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

Incentives: Income derived from the production of agricultural products is exempt from corporate income tax until 31 December 2024. Income from the production of handmade carpets also is exempt from corporate income tax.

Nonresident companies are exempt from corporate tax on interest income derived from Armenian government bonds denominated in foreign currency and on income derived from the sale and exchange of such bonds and other similar transactions.

Companies implementing a business plan approved by 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 the business plan is launched and the five subsequent tax years, but is limited to 30% of the actual corporate tax calculated for the relevant tax year.

Other: There are two special taxation systems in Armenia, under which qualifying resident companies and individual entrepreneurs pay turnover tax instead of corporate income tax and VAT, or are completely exempt from corporate income tax in the case of the micro-entrepreneurship system.

Compliance for corporations

Tax year: The tax year is the calendar year.

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

Filing and payment: Annual corporate income tax returns 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 the lesser of 20% of the corporate income tax reported by a company for the previous tax year and 2% of the income of the previous quarter.

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: There is no system for advance rulings for tax purposes.

Individual taxation

Rates	
Individual income tax rate	22%
Capital gains tax rate (applied to total sales proceeds)	0%/10%/20%

Residence: Individuals are resident in Armenia if they are present in the country for more than 183 days in the tax year, or if their center of vital interests is in Armenia.

Basis: A resident individual is subject to personal income tax on worldwide income; a nonresident individual is subject to personal income tax on Armenian-source income only.

Taxable income: Taxable income includes salary and equivalent income, income from the provision of services, interest, royalties, income from the lease or sale of property, dividends paid to nonresident individuals, and other income received by individuals.

Rates: For salary and equivalent income and income received from the provision of services, as well as other income not listed below, income tax is calculated at a 22% flat rate.

Dividends received are taxable at a 5% rate, unless the rate is reduced under a tax treaty. Income tax on dividends is refundable if the dividends are reinvested in the same resident company in the same tax year they are received.

Interest income and royalties are subject to a 10% personal income tax.

Income from leases is taxed at a rate of 10%; however, if the total income derived during the tax year exceeds AMD 60 million, an additional income tax of 10% is calculated on the excess.

Capital gains are exempt from tax if they are derived from sales of the following:

- Land (regardless of the purpose of the sale);
- Property sold by an individual (other than a property developer) to another individual;
- Bonds issued by the Armenian government or the Pan-Armenian Bank;
- Equity securities; and
- Securities representing an investment in an investment fund.

Where capital gains are subject to tax, the tax applies on the total sales proceeds, rather than on the net capital gains.

The proceeds from the sale of non-business purpose property by an individual (other than a property developer) to a tax agent (e.g., an organization) are subject to a 10% withholding tax. The proceeds from the sale of business purpose property and proceeds derived by property developers from the sale of property are subject to a 20% tax.

Capital gains: See under “Rates,” above.

Deductions and allowances: See under “foreign tax relief,” below.

Foreign tax relief: Resident individuals are subject to personal income tax on their worldwide income, with credit granted for overseas taxes paid up to the amount of tax assessable in Armenia on the foreign income. If the credit is higher than the income tax liability for a particular year, the excess amount may be carried forward and set off against income tax liabilities in subsequent years.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: Individuals must file a separate income tax return if they have taxable income during the tax year that is not taxed at source by a tax agent. Tax agents must file tax returns monthly, on a name basis for income paid to employees and service contractors, and on a no-name basis for income paid to other individuals.

Filing and payment: For salary and equivalent income, as well as other income received from resident organizations and nonresident organizations with a registered PE in Armenia, the calculation and payment obligations rest with the withholding agent and must be carried out on a monthly basis. Both the reporting and the payment are due by the 20th day of the month following the reporting month.

In cases where the calculation and payment of income tax are not the responsibility of the withholding agent, the individual payee is responsible on an annual basis. Both the reporting and the payment are due by the 20th day of April of the year following the reporting year.

Salary and equivalent income are included in taxable income on an accrual basis, and most other income, such as passive income, income from the performance of services, in-kind income, etc. is included on a cash basis.

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

Rulings: There is no system for advance rulings for tax purposes.

Withholding tax

Type of payment	Residents		Nonresidents	
	Company	Individual*	Company	Individual*
Dividends	0%	5%	5%	5%
Interest	0%	10%	10%	10%
Royalties	0%	10%	10%	10%
Fees for technical services	0%	22%	20%	22%

* In Armenia, personal income tax on payments received by individuals from a tax agent generally is levied through withholding by the tax agent, so personal income tax and withholding tax are not separate concepts under the domestic tax legislation. See "Compliance for individuals" for additional information.

Dividends: Dividends paid to a resident company are not subject to withholding tax. A 5% withholding tax applies to dividends paid to an individual or a nonresident company, unless the rate is reduced under a tax treaty.

Interest: Interest paid to a resident company is not subject to withholding tax. A 10% withholding tax applies to interest paid to a resident individual.

Interest paid to a nonresident is subject to a 10% withholding tax, unless an exemption or a reduced rate applies under a tax treaty.

Royalties: Royalties paid to a resident company are not subject to withholding tax. A 10% withholding tax applies to royalties paid to a resident individual.

Royalties paid to a nonresident are subject to a 10% withholding tax, unless an exemption or a reduced rate applies under a tax treaty.

Fees for technical services: Fees for technical services paid to a resident company are not subject to withholding tax. A 20% withholding tax applies to fees for technical services paid to a nonresident company, unless an exemption or a reduced rate applies under a tax treaty.

Fees for technical services paid to resident or nonresident individuals are considered as regular income that is subject to withholding tax at the individual income tax rate (22%).

Branch remittance tax: There is no branch remittance tax.

Other: Insurance compensation, reinsurance payments, and freight payments made to a nonresident are subject to a 5% withholding tax, unless an exemption or a reduced rate applies under a tax treaty.

Passive income derived by a nonresident (except for capital gains derived from the sale of securities) is subject to a 10% withholding tax. Capital gains derived by a nonresident from the sale of securities are exempt from withholding tax.

Other income derived by a nonresident company is subject to a 20% withholding tax, unless an exemption or a reduced rate applies under a tax treaty.

Anti-avoidance rules

Transfer pricing: Transfer pricing rules are applied by the tax authorities to both cross-border and domestic transactions between associated enterprises, to minimize base erosion and profit shifting.

The Armenian transfer pricing legislation in the tax code is based on the arm's length principle and mainly follows the OECD transfer pricing guidelines.

Transfer pricing controls require the preparation of an annual notification about controlled transactions and documentation demonstrating the validity and compliance of the transactions between associated enterprises.

Interest deduction limitations: Interest expenses on loans from entities other than banks and credit organizations are not deductible in excess of double the tax base of the taxpayer's net assets. The threshold for banks and credit organizations is nine times the tax base of the net assets.

Controlled foreign companies: There are no CFC rules.

Hybrids: There are no regulations relating to hybrids.

Economic substance requirements: There are no economic substance requirements.

Disclosure requirements: See under "Transfer pricing."

Exit tax: There is no exit tax.

General anti-avoidance rule: There are no regulations relating to a general anti-avoidance rule.

Value added tax

Rates	
Standard rate	20%
Reduced rate	0%

Taxable transactions: VAT applies to most sales of goods, the provision of services, the performance of works, and imports.

Rates: The standard VAT rate is 20%, with a zero rate or an exemption applying to certain supplies.

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

Filing and payment: Both the reporting and the payment of VAT are due by the 20th day of the month following the reporting month.

Other: There are two special taxation systems in Armenia, under which qualifying resident companies and individual entrepreneurs pay turnover tax instead of corporate income tax and VAT, or are completely exempt from VAT in the case of the micro-entrepreneurship system.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply to both companies and individuals and are imposed at the state or municipal level.

Social security contributions: Individuals born after 1 January 1974 must make social security payments at a rate of 3.5% on their salary and equivalent income and income from the provision of services, in a case where the income is less than or equal to AMD 500,000. If the salary and equivalent income or income from the provision of services is between AMD 500,000 and AMD 1,020,000 (the latter amount is calculated as 15 times the minimum monthly salary (AMD 68,000)), the social security contribution is calculated as 10% on the gross income minus AMD 32,500. Where the relevant income is equal to or exceeds AMD 1,020,000, the social security contribution is calculated as 10% on AMD 1,020,000 minus AMD 32,500. Individuals have the right to waive the maximum threshold for social security payments.

Payroll tax: There is no payroll tax as such. Only individual income tax is applicable, as described above (see under “Compliance for individuals”).

Capital duty: There is no capital duty.

Real property tax: Property tax is calculated at a rate of 0.3% of the tax base for public buildings, at a rate of 0.25% for industrial buildings, and at a rate of 0.2% for buildings meeting the definition of a garage. Progressive rates from 0.05% to 1.5% of the tax base are applicable for the calculation of real property tax for residential buildings. The tax base is the cadastral value approximate to the market value, and is assigned and updated once every three years by the authorized body.

Property tax is payable to municipal budgets and is paid semiannually by companies and annually by individuals.

Transfer tax: There is no transfer tax.

Stamp duty: There is no stamp duty.

Net wealth/worth tax: There is no net wealth/net worth tax.

Inheritance/estate tax: There is no inheritance/estate tax.

Tax treaties: Armenia has treaties with more than 47 countries. Armenia signed the OECD multilateral instrument (MLI) on 7 June 2017, but has not yet ratified the MLI.

Tax authorities: The State Revenue Committee of Armenia

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