



Legislative Newsletter

Legislative Amendments and Modifications

This Newsletter is aimed at presenting in brief the main provisions of the amendments and modifications introduced to the several normative legal acts of the Republic of Armenia (RA).



RA Law “On Turnover Tax”

The amendments and modifications made to the RA Law “On Turnover Tax” were aimed, in one respect, at introducing the optional system to become turnover tax payer for the entities meeting the requirements set forth the discrepancies and inconsistencies of the abovementioned law.

- 1) In reference to the optional system of becoming a turnover tax payer, it should be noted that starting from the 1st of January, 2015 the entities not being considered, by virtue of law, as value added tax (VAT) payers shall for the purposes of being subject to turnover tax, submit to the tax authority of their residence a respective declaration in the form approved by the superior tax authority; it is worth noting that the conditions and the terms for the submission of the said declaration depends on certain circumstances, particularly:
 - the entities existing as of the 1st of January and meeting the requirements to be considered as turnover tax payers might be assigned such status for the period starting from the 1st of January

till the end of the respective year upon submission of the said declaration by the 20th of February of the given year;

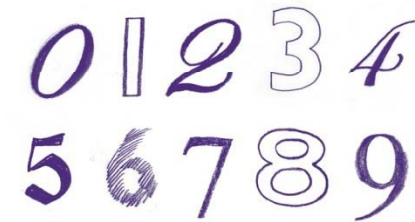
- the entities being founded/established after the 1st of January and meeting the requirements to be considered as turnover tax payers might be assigned such status for the period starting from their foundation/establishment date till the end of the respective year upon submission of the said declaration by the 20th day following their foundation/establishment date;
- the entities having ceased to be considered as actors of family business* and meeting the requirements to be considered as turnover tax payers might be assigned such status for the period starting from the cessation date till the end of the respective year upon submission of the said declaration by the 20th day following the said cessation date ;



*The information on the family business can be found on slide 4 of this Newsletter

RA Law “On Turnover Tax”

- 2) In reference to the elimination of the discrepancies and inconsistencies of the abovementioned law, it should be noted that since its adoption date the cases of simultaneous participation of any physical person in the charter capital of 2 commercial organizations with 20 and more percent were given differing interpretations, more specifically, with the use of the term “persons” (which did not include physical persons) in the text of the law, 2 different cases foreclosing the status of turnover taxpayer were confused. Such fact was giving rise to interpretation according to which the term “person” in one of the mentioned foreclosed cases referred to physical persons and therefore, some commercial organisations in keeping with this approach and being guided by such interpretation erroneously considered themselves as entities not being subject to turnover tax. As a result of the changes introduced to the given law, the discrepancy described above was eliminated and starting from the 1st of January, 2015 the given situation will be deemed as hindering for the both commercial organizations to become turnover tax payers.
- 3) In reference to the mitigation of the tax burden of the entities being involved in trading activities along with setting additional requirements, it should be noted that starting from the 1st of October, 2014 incomes from trading activities should be subject to turnover tax at the rate of 1 percent in lieu of the previous rate of 3.5 percent, provided that the given turnover tax payers involved in trading activities have ensured the documentation for all goods purchase transactions. In case of non-compliance with the said requirement, the progressive liability mechanism will be applied, which has been introduced as a result of legislative amendments. According to this mechanism the to-be-imposed liability shall be determined depending on the period and frequency of violation.



RA Law “On Taxes”

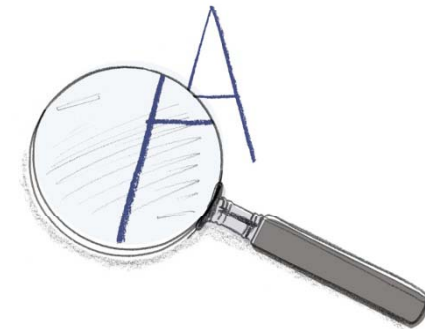
The changes and amendments made to the RA Law “On Taxes” have resulted in introduction of the concept of the family business and distinct clarification of the procedure for imposing attachment on the monetary means of the taxpayers for the purpose of securing the discharge of their tax liabilities.

Family business is defined as entrepreneurial activity jointly carried out by more than one members of a family (parents, spouses, children, brothers, sisters) aimed at profit making, provided that the revenues generated from such activities for the previous or current calendar year do not exceed AMD 12 million. It should be noted that the actors of family business may include both RA resident commercial organisations the charter capital of which fully belongs to one or several family members, and individual entrepreneurs. In both cases, their activities should be carried out by family members only, who might also be employed as hired workers. However, it is worth noting that the law defines several types of activities, as well as certain circumstances, the performance or availability of which excludes the possibility to be qualified as family business actor.

Actors of family business are exempted from all types of state taxes, except for the income tax to be withheld from the taxable incomes payable in connection with the family business activities through a tax agent, which should be calculated on monthly basis in the amount of AMD 5,000 per each employee. Along with the said tax incentives the actors of family business are still obliged to submit to the tax authorities on yearly basis (i) return on overall sales, and (ii) statement on incomes paid as a tax agent. Please note that the relevant provisions of the abovementioned law regulating the concept of family business would enter into force on the 1st of October, 2014.

As to the precisions made to the procedure for imposing attachment on the monetary means of the taxpayers for the purpose of securing the discharge of their tax liabilities, it should be noted that the changes made to the abovementioned law were aimed at eliminating the issues emerging in practice as a result of application of previous regulations, particularly, issues in connection with the attachment of monetary means of a taxpayer on all the bank accounts of the latter (i) in cases when the balance of even one bank account was sufficient to secure

the discharge of the respective tax liability or (ii) in cases when the respective attachment-imposing decision contained no precision on the attachable sum; and other similar issues connected with the attachment removal, use of the attached monetary means for discharging tax liabilities only with the prior permission of the relevant tax authority, etc.



RA Law “On Taxes”

As a result of the abovementioned changes it was clearly defined that for the purpose of securing the discharge of respective tax liability by a taxpayer free cash assets of the latter available on its bank account should be attached solely in the amount of such tax liability as specified in the relevant attachment-imposing decision.

Concurrently, a new mechanism was defined allowing, in case of securing in full the sum to be attached through the balance of taxpayer’s bank accounts in one commercial bank, to remove the attachment imposed on the monetary means available on the bank accounts of the same taxpayer in other commercial banks. As a result of the amendments to the abovementioned law some guarantees were also defined to exclude the enforcement of the attachment-imposing decisions containing no precision on the sum to be attached, as well as taxpayers became entitled to freely dispose the attached monetary means when transferring them to the state budget and remove relevant attachment by concluding a tax liabilities repayment schedule with relevant tax authority.

The new facilitated procedure for imposing attachments will apply starting from the 10th day following the official publication of the law on introducing changes to the abovementioned law. It should be noted that the said law on introducing changes has not yet been published.



RA Law “On Cumulative/Funded Pensions”

Through the amendments introduced into the aforementioned law it was attempted to align the legal regulations established by the said law with the requirements of Decision No. DCC-1142 of the RA Constitutional Court adopted on the 2nd of April, 2014. As a result, the aforementioned law has been stated in an entirely new edition, the whole concept of cumulative/funded pensions system has been reviewed and changed. The new system is applicable since the 1st of July, 2014. More specifically, the compulsory (statutory) cumulative/funded payments being a key element of the previous system have been replaced with social payments subject to calculation at the same rates. Unlike the compulsory (statutory) cumulative/funded payments, the social payments are to be transferred to the state budget as targeted payments which will be directly dependent on the size of the pension to be received by a person in the future. Moreover, according to the current regulation, a respective grace period (till the 1st of July, 2017) has been established for the persons being participants of the previously applied compulsory (statutory) cumulative/funded pension component and being private sector workers as of the 1st of July, 2014 to join the cumulative/funded pension system. The aforementioned persons may take use of the said grace period before the 25th of

December, 2014, should they submit an application to waive making social payments to tax authorities through their respective employers. Furthermore, the persons enjoying the said grace period will be also given an opportunity to re-consider their waiver by resuming the execution of social payments. However, it should be noted that the opportunity given to enjoy the grace period for joining the cumulative/funded pension system will not refer to the persons employed in private sector after the 1st of July, 2014, including also newly appointed notaries and individual entrepreneurs registered in the state register after the said date, for whom partaking in the system is compulsory from the date so established. Unlike the workers employed in private sector, the public servants (with certain exceptions), hired employees of public/municipal non-commercial organizations may not waive partaking in the cumulative/funded pension system.

Additional privileges/benefits have been established for:

- for persons born on the dates falling from the 1st of January, 1964 till the 31st of December, 1973, who willingly joined the cumulative/funded pension system before the 1st of July, 2017 by submitting an application for respective fund selection. Particularly, same contributions from the state budget, as those to be made in case of persons born after the 1st of January, 1974, will be made for the benefit of aforementioned persons.
- social payment payers born on the 1st of December, 1996 and afterwards, for whom the amount of the social payment will, till the 1st of July, 2017, be reduced from the payable income tax amount;



RA Law “On Cumulative/Funded Pensions”

Of the essential changes of the mentioned law is the establishment of maximum monthly and annual thresholds for the social payments calculation objects (the amounts of AMD 500,000 and AMD 6,000,000 accordingly will be taken as a basis for maximum thresholds for the period up to the 1st of July, 2020). It is also worth noting that the law amending the aforementioned law also contributed to regulation of the issue of refund of cumulative/funded payments made since the 1st of January, 2014. Particularly, it was established that based on the application submitted by a person, the pension fund shares acquired at the expense of the cumulative/funded payments made by participants before the 1st of January, 2015 according to the previous regulation, will be redeemed and paid cashless to the participants during the time covering the period from the 1st of January till the 1st of July, 2015. It should be noted that the mentioned applications must be submitted to the registrar in charge of the participants register from the 1st of September till the 25th of December, 2014 via the web site of the latter or through the account’s operator. A redemption fee at the rate of maximum 2 percent may be charged at a time of pension fund shares redemption.



Other amendments

RA Law “On Accounting”

As a result of the introduced changes, starting from the 1st of July, 2014 large organizations (organizations the revenue or the balance cost of the assets of which exceeds AMD 1 billion during the reporting period) have been relieved from the requirement to publish the audit opinion along with their annual financial statements. This means that starting from the financial year of 2014 large organizations are no longer bound to employ audit companies for the purpose of obtaining their opinion on the annual financial statements, but will be still obliged to publish their annual financial statements though not audited.

RA Law “On Transfer Pricing”

It is worthy of note that the draft of the RA Law “On Transfer Pricing” having been discussed since the last year, was adopted on the 20th of June, 2014 from the first reading. Please find more detailed information on the draft law in our previous Tax Newsletter at the following link:

http://www.gtlegal.am/js/editor_innova/assets/Tax_newsletter_on_Transfer_Pricing_Eng.pdf

RA Law “On Income Tax”

As a result of amendments introduced to the aforementioned law, the taxing procedure (which will become effective from the 1st of January, 2015) for incomes generated from the lease/rent of real estate/immovable property by physical persons, who do not act as individual entrepreneurs, has been reviewed. In particular, following the new regulation, in case if in the current year the sum of income amounts generated from the lease/rent of real estate/immovable property is in excess of AMD 58.35 million, the physical person who does not act as an individual entrepreneur, shall, along with paying the income tax from the incomes generated from lease/rent of real estate/immovable property at the rate of 10 percent through tax agent or individually as prescribed by general rule, annually pay the income tax at the rate of the same 10 percent calculated in terms of the part exceeding the given threshold.

RA Law “On Minimum Monthly Salary”

As a result of the legislative changes the amount of the minimum monthly salary, as well as minimum hourly rates have been revised from the 1st of July, 2014 and are currently established at AMD 50,000 (in lieu of previous AMD 45,000), AMD 300 (in lieu of previous AMD 270 applicable in case of 40-hour work week), AMD 334 (in lieu of previous AMD 300 applicable in case of 36-hour work week) and AMD 500 (in lieu of previous AMD 450 applicable in case of 24-hour work week), accordingly. Concurrently, as a result of amendments it was also established that the minimum monthly salary should not include the targeted social payments*.

*The information on the targeted social payments can be found on slides 6-7 of this Newsletter.

Contacts

For additional information on the changes and amendments made to the tax legislation, please contact us on the contact numbers mentioned below.

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