

Tax Newsletter

On Strategic Principles Guideline for Reviewing Tax Legislation

With this Tax Alert we present to your kind attention the key points of the Strategic Principles Guidelines for reviewing tax and customs legislation approved by the RA Government during the meeting held on July 25, 2013, for the purpose of outlining the short-term, as well as long-term amendments to be introduced to the tax legislation together with the underlying principles.



The Main Points of Guideline Principles for Reviewing Tax Legislation

The strategic principles for reviewing the tax legislation within the framework of the Guideline have been developed based on the Strategic Development Plan of Republic of Armenia for 2012-2025, especially targeting on the two momentous issues of the aforementioned Plan in the part pertaining to the State Revenues Policy as follows:

- 1) tax revenues are seen to be the main source for expanding the scope of resources during the next decade, and the tax / GDP ratio until the end of 2025 should constitute approx. 27-28%;
- 2) improvement of tax and customs administration should be considered as a priority for upcoming business and investment climate reform.



The Main Points of Guideline Principles for Reviewing Tax Legislation

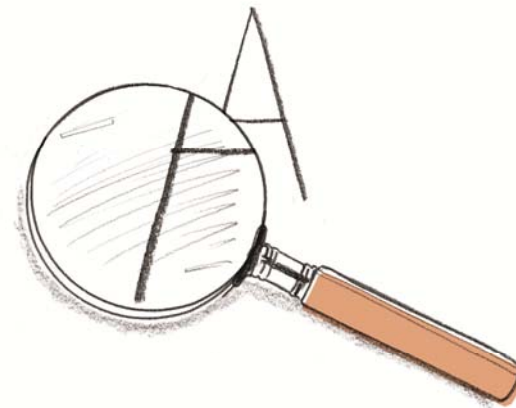
According to the developed Guideline the tax legislation in Armenia in medium-term and long-term perspective will be based on the following main eight principles:

1. Diminution of tax incentives and strengthening tax base (strengthening principle of horizontal equity):

- repeal of privilege upon exemption of the revenues, which were gained from the sale of agricultural products, from taxing by profit or income tax;
- a number of services provided in the financial sector of the economy are expected to be taxed by VAT (it should be pointed out that currently these services are exempted from VAT);
- dividends received by resident companies as well as resident and non resident individuals are expected to be taxed accordingly;
- interests gained by physical persons on treasury bonds are expected to be taxed accordingly (by income tax).

2. Strengthening vertical equity principle:

Strengthening principle of vertical equity will be mainly directed at most increased taxation of visible wealth or luxury. For creation of a practical mechanism for visible wealth or luxury taxation, a large-scale or regular re-evaluation of real estate units will be carried out aimed at maximally approximating the cadastral values thereof to their market prices, and thus expanding the property tax base.





The Main Points of Guideline Principles for Reviewing Tax Legislation

3. Improving business environment

The main directions for the improvement of business environment will be:

- establishing procedures for refunding the conditional overpayments (debit balances) identified as a result of VAT calculations/returns to taxpayers after a certain period of time;
- establishing holistic principles for calculation of VAT liabilities, particularly pertaining to application of holistic approach on occurrence of VAT liability and acquisition of the right to VAT offset (in both cases accrual principles shall be adhered);
- improving the system for deferred VAT amounts calculated by customs authorities at a time of import;
- studying and evaluating the possibilities for gradual relocation of levying VAT calculated by customs authorities for the goods imported to the territory of the Republic of Armenia at the customs border to inland.

4. Optimization of tax rates

Tax rates should be established to the intent that:

- tax burden can be affordable in the context of profitability of entrepreneurial activity;
- they are maximally harmonized with the rates applicable in the CIS and the countries which in respective areas are competitors to the Republic of Armenia;
- the goods, to which the price elasticity of demand is relatively low and which are not primary consumption goods (mainly goods taxable by excise tax such as alcoholic drinks, tobacco products), be taxed by relatively higher tax rates.



The Main Points of Guideline Principles for Reviewing Tax Legislation

5. Simplification and improvement of tax administration procedures

Simplification and improvement of tax administration procedures are to be based on:

- simplification of the legislative provisions, elimination of ambiguities and uncertainties;
- continual application of taxation methods (methods that do not expand contacts with tax authorities, do not increase resources spent on tax accounting and require minimum resources from tax authorities) preventing increase in administrative burden on taxpayers.

6. Provision of maximum stability in the long-term perspective

In the light of the above the Government prefers as far as feasible to refrain from introducing frequent changes into fiscal system (especially if no essential improvements are expected from such changes and they are not driven by the urgency in protecting the interests of the state), given that such changes will be creating inconveniences not only for taxpayers, but also for tax bodies.





The Main Points of Guideline Principles for Reviewing Tax Legislation

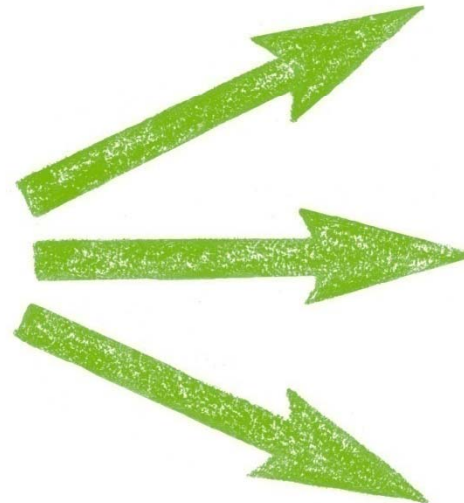
7. Monitoring and publicity of the process of changes introduced in the fiscal system

Within the framework of this principle, the RA Government envisages that the improvements in the fiscal system (including the legislative changes) for the purpose of their efficiency evaluation, should be accompanied by:

- development and introduction of a system of performance indicators;
- review of the efficiency of the measures undertaken under performance indicators;
- improvement of extrajudicial system for appealing the action or inaction of tax/fiscal officers;
- publicity given to proposed legislative changes.

8. Expanding the incidence of tax treaties

It is envisaged to conclude and apply treaties/agreements regulating international tax/fiscal relations.



Contacts

For additional information please do not hesitate to contact us.

Grant Thornton Legal & Tax LLC

10 V. Sargsyan street, 1st floor, office # 109

RA, Yerevan 0010

+374 (10) 54 51 49

legal@am.gt.com



The matters covered in this publication are intended as a general overview and discussion. They are not intended, and should not be used, as a substitute for taking legal advice for any specific issue.



Hakob Tadevosyan

Managing Partner

T +374 (10) 54 51 48

E hakob.tadevosyan@am.gt.com



Davit Harutyunyan

Partner

T +374 (10) 54 51 48

E davit.harutyunyan@am.gt.com

© Grant Thornton Legal & Tax LLC. All rights reserved.

“Grant Thornton” refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Legal & Tax LLC is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Please visit www.gtlegal.am for further details.