

Armenian Tax & Law Brief

July 2019

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Amendments and supplements to the RA Tax Code dated 4 October 2016

On 25 June 2019¹, the RA Parliament adopted RA Law No. HO-68-N, which makes a number of amendments and supplements to the RA Tax Code dated 4 October 2016. The law will enter into force starting 1 January 2020. However, there are some provisions that come into force starting 29 June 2019.

Below we highlight all the major amendments and supplements to the Code that the newly adopted law provides:

Corporate income tax

- ▶ Starting 1 January 2020, corporate income tax is to be decreased by two percentage points to 18%. This rate is to be applied to the calculation of corporate income tax attributable to 2020 and reporting periods succeeding it.
- ▶ Starting 1 January 2020, dividends received by non-resident organizations are to be taxed at 5% instead of 10%. This rate applies to dividends received from net profits attributable to 2020 and reporting periods succeeding it.

Personal income tax

- ▶ Starting 1 January 2020, personal income tax is to be calculated at a flat rate of 23% and to be gradually lowered to 20% as the table below presents:

Time-period	Personal income tax rate
Starting 1 January 2020	23%
Starting 1 January 2021	22%
Starting 1 January 2022	21%
Starting 1 January 2023	20%

- ▶ In parallel to the decrease in personal income tax rates, according to the RA Law "On funded pensions" the principle of equal participation by citizens and the state in respect of funded pension allocations will be restored.

In particular, starting 1 July 2020, the maximum threshold for the calculation of the social security payment will change and instead of AMD 500,000 it will become AMD 825,000 (i.e. 15 times the minimum monthly salary of AMD 55,000). However, based on reports in the media, the minimum monthly salary might increase and reach AMD 68,000. In this case, the maximum threshold will become AMD 1,020,000.

Additionally, from 1 January 2021 to 31 December 2021, the social security payment will be calculated as follows:

3.5% of the monthly gross salary if it is less than AMD 500,000;

10% of the maximum threshold minus AMD 32,500 if the monthly gross salary is more than AMD 500,000.

In the same token, from 1 January 2022 to 31 December 2022, the social security payment will be calculated as follows:

4.5% of the monthly gross salary if it is less than AMD 500,000;

10% of the maximum threshold minus AMD 27,500 if the monthly gross salary is more than AMD 500,000.

- ▶ Starting 1 January 2020, personal income tax as part of dividends received by foreign citizens from Armenian sources, just like that of RA citizens, is to be calculated at 5% (instead of 10%). This rate applies to dividends received from net profits attributable to 2020 and reporting periods succeeding it.

Value added tax

- ▶ For the year 2019, those resident taxpayers whose sales turnover exceeds AMD 115 mln (instead of AMD 58.35 mln) are to be considered VAT payers. Meanwhile, taxpayers who exceeded the threshold of AMD 58.35 mln sales turnover in terms of all types of activities before 29 June (inclusive) of the ongoing tax year continue to be treated as VAT payers throughout 2019.

¹ On 25 June 2019 the RA Parliament additionally adopted amendments and supplements to several other laws related to the RA Tax Code which we refer to in this brief when applicable.

- ▶ Starting 1 January 2020, only VAT payers will be allowed to get exempted from VAT payment when importing goods included in the VAT exemption list according to the RA Law “On approving the list of goods not subject to taxation under the excise tax whose import by organizations and sole entrepreneurs is exempted from taxation under value added tax”.
- ▶ Starting 1 July 2019, based on an application of the taxpayer, input VAT amounts that are subject to refund can be debited to the unified tax account of the taxpayer on a quarterly (instead of semi-annual) basis. This provision applies to VAT amounts that need to be refunded based on the VAT and excise tax unified reports covering reporting periods after 1 July 2019.

Excise tax

- ▶ Starting 1 January 2020, the taxation of activities under the excise tax with rates expressed in percentages will be eliminated. Accordingly, new fixed rates based on the quantitative tax bases have been approved. Further, a new system of annual adjustment of excise tax rates for certain types of goods has been introduced.
- ▶ Starting 1 January 2020, excise tax rates of ethyl alcohol, vodka (except vodkas made from fruits and berries), beer, and tobacco products of IQOS technology will be raised.
- ▶ Starting 1 January 2020, business entities producing or importing goods taxed under the excise tax will be allowed to operate in the microentrepreneurship and turnover tax systems.

Patent tax

Starting 1 January 2020, all provisions of the Code related to the patent tax will lose force. The patent tax will be removed from the taxation system.

Road tax

Road tax for trucks registered in the RA will be eliminated and the Government shall prescribe the requirements for the documentation of expenses incurred abroad by international transportation service providers.

Microentrepreneurship system

Starting 1 January 2020, the Tax Code will substitute the chapter on the family entrepreneurship system and the system of taxation of self-employed entities with a newly drafted chapter on the microentrepreneurship system. Within the scope of this preferential tax system the entities will be exempted from all the main taxes and be able to involve a limitless number of physical persons (regardless of whether they are family members or not) in their activities as employees, whose monthly personal income tax will constitute AMD 5,000. Further, legal entities, sole entrepreneurs, as well as physical entities not considered sole entrepreneurs can make use of this system unless their annual sales turnover exceeds AMD 24 million. Physical persons not registered as sole entrepreneurs can make use of this taxation system if they carry out basic activities prescribed by the Code.

Accordingly, the Chapter defines the conditions for qualifying to participate in the microentrepreneurship system, termination thereof, exemption from several taxes, transition to the general or turnover taxation systems as well as types of entities that cannot be considered participants of the microentrepreneurship system.

State duties

Starting 1 January 2020, state duties for licenses necessary for carrying out a number of activities in the financial and gaming sectors will significantly increase. In particular, below we present a non-exhaustive list of activities subject to licensing from the financial and gaming sectors for the performance of which state duties will be levied at the following rates (the term “base duty” used in the table below is defined by the RA Law “On State duty” and is AMD 1,000):

<i>Activities in the financial sector</i>	
Description	State duty
Sale and purchase of foreign currency (for each address individually), annually	500 times the base duty starting 1 January 2020
	1,000 times the base duty starting 1 January 2021
For the provision of investment services, annually	500 times the base duty

For the performance of fund management activity, annually	500 times the base duty
For the operation of banks (also for branches of foreign banks which attract deposits), annually	8,000 times the base duty
For the operation of each branch of a bank, annually	1,000 times the base duty
For the operation of each representative office of a bank, annually	500 times the base duty
For the operation of each representative office of a foreign bank, annually	500 times the base duty
For the operation of branches of foreign banks (which do not attract deposits), annually	1,000 times the base duty
For the operation of each branch of an insurance company, annually	200 times the base duty
For the operation of each representative office of an insurance company, annually	300 times the base duty
For the operation of each representative office of a foreign insurance company, annually	300 times the base duty
For the organization of pawnshops (for each address individually), annually	1,500 times the base duty starting 1 January 2020 2,000 times the base duty starting 1 January 2021
For the performance of money transfers, annually	1,000 times the base duty
For the operation of credit organizations, annually	6,000 times the base duty

In the city of Tsaghkadzor, annually	180,000 times the base duty
In the city of Sevan, annually	150,000 times the base duty
In the city of Jermuk, annually	100,000 times the base duty
In the city of Meghri, annually	35,000 times the base duty
In the city of Yerevan and elsewhere	5,500,000 times the base duty

Taxation of totalizators

The taxation of totalizators (including internet totalizators) and games of chance (including internet games of chance) will be reconsidered starting 1 January 2020 and 1 January 2021 respectively. In particular, considering the growth of the industry, it is proposed to tax these activities under corporate income tax.

Also starting 1 January 2020, totalizators (including internet totalizators), which were listed under the activities covered by the patent tax will be included in the activities exempted from VAT.

Based on a study of international practice and given the possible administrative complexities, gains of players will not be taxed.

Recording of transactions denominated in foreign currency

Starting 29 June 2019, tax bases and initial values during the import or export of goods from/to EAEU member states are determined based on the CBA rate on the date the good is imported into RA territory (crosses the RA border) or is exported from RA territory (crosses the RA border). No tax offence occurs when the tax base and initial value of goods imported/exported from/to EAEU member states after 1 January 2018 are calculated using the CBA rate on the date the RA border is crossed.

Documentation of e-commerce activities

Starting 29 June 2019, e-commerce transactions and activities may be documented with documents issued by companies providing payment and settlement services or documents printed via machines that serve the payment tools used by those companies.

<i>Activities in the gaming sector</i>	
Description	State duty
For the organization of lotteries, annually	600,000 times the base duty
For the organization of internet games of chance, annually	600,000 times the base duty
For the organization of games of chance and casinos in each location, including	

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