

# International Tax

## Armenia Highlights

In Plain English



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## 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 done in AMD.

**Accounting principles/financial statements** – IFRS. 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:

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

**Basis** – A resident company and an individual entrepreneur are subject to corporate income tax on their worldwide income; a nonresident company is subject to corporate income tax only on Armenian-source income.

**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 PE of a nonresident company is the positive difference between the gross income received from Armenian sources through the PE and allowable deductions. For a nonresident company without a registered PE, taxable income is the gross income received from Armenian sources.

**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 a resident company and a registered PE of a nonresident company, and are subject to corporate income tax at 20%.

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

**Rate** – The corporate income tax rate is 20% for a resident company, an individual entrepreneur and a PE of a nonresident company.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – 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 the subsequent years.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Resident companies that are engaged exclusively in the export of goods or the provision of services are subject to corporate income tax at a rate of 5% if the total amount of goods exported and services provided exceeds AMD 40 billion in the reporting period, and 2% if the total amount of goods exported and services provided exceeds AMD 50 billion in the reporting period. Government approval is required to benefit from this incentive.

Income derived 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 corpo

rate tax on interest income derived from Armenian government bonds denominated in foreign currency, on income derived from the sale and exchange of such bonds and from 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 three special taxation systems in Armenia, under which qualifying resident companies and individual entrepreneurs pay turnover tax or patent tax instead of corporate income tax and VAT, or are completely exempt from corporate income tax in the case of the family entrepreneurship system.

### **Withholding tax:**

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

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

Lease payments made to a nonresident are subject to a 10% withholding tax.

Capital gains derived by a nonresident from the sale of securities are exempt from withholding tax.

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

### **Other taxes on corporations:**

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – Property tax is calculated at a rate of 0.3% of the tax base for public and industrial buildings and at progressive rates from 0% to 1% of the tax base for residential buildings. The tax base is the cadastral value, which 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.

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

**Stamp duty** – No Transfer tax – No

### **Anti-avoidance rules:**

**Transfer pricing** – Transfer pricing rules are applied by 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 and.

Transfer pricing controls will be effective starting

January 2020 and will require the preparation of an annual notification about controlled transactions and documentation demonstrating the validity and compliance of the transactions between associated enterprises.

**Thin capitalization** – 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** – 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** – 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 20% of the corporate 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 submitted 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 subject to personal

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

**Residence** – An individual is resident in Armenia if he/she is present in the country for more than 183 days in the tax year, or if his/her center of vital interests is in Armenia.

**Filing status** – Each individual must file a separate income tax return if he/she has 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.

**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.

**Capital gains** – No

**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 in subsequent reporting periods.

**Rates** – For salary and equivalent income, income received from the provision of services, as well as other income not listed below, income tax is calculated at progressive rates: monthly 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 a 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 a 36% tax on the amount exceeding AMD 2 million.

Dividends received by Armenian citizens are

taxed at a rate of 5%. Dividends received by non-Armenian citizens are taxable at a rate of 10%, 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 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 received during the tax year exceeds AMD 58.35 million, an additional income tax of 10% is calculated on the excess.

Income received from the sale of non-business purpose property is subject to a 10% tax; and income received from the sale of business purpose property and income received by property developers from the sale of property is subject to a 20% tax.

### **Other taxes on individuals:**

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – Property tax 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.

**Inheritance/estate tax** – No Net wealth/net worth tax – No

**Social security** – Individuals born after 1 January 1974 must make social security payments at a rate of 2.5% on their salary and equivalent income and income from the provision of services. The maximum threshold for social security payments is AMD 12,500, but individuals have the right to waive this threshold.

### **Compliance for individuals:**

**Tax year** – Calendar year

**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 rests with the withholding agent and must be done on a monthly basis. Both the reporting and the payment are due by the 20th 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 payment are due by the 20th 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.

### **Value added tax:**

**Taxable transactions** – VAT applies to most sales of goods, the provision of services 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 58.35 million.

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

**Other** – There are three special taxation systems in Armenia, under which qualifying resident companies and individual entrepreneurs pay turnover tax or patent tax instead of corporate income tax and VAT, or are completely exempt from VAT in the case of the family entrepreneurship system.

**Source of tax law:** RA Tax Code, EEU Customs Code

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

**Tax authorities:** The State Revenue Committee of Armenia

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