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THE LAW OF THE REPUBLIC OF ARMENIA

ON EXCISE TAX

Adopted by National Assembly
7 July, 2000

Article 1. Subject of the Law

The present law regulates the payment and estimation of excise tax in the territory of the Republic of Armenia, determines the products subject to the excise tax, the scope of taxpayers, the tax rates, the tax calculation and payment procedures, as well as liabilities in case of violations of the present Law.

Article 2. The Excise Tax

The excise tax is an indirect tax paid to the state budget according to the established procedures and rates for importing the goods subject to the excise tax or for realization of such goods in the territory of the Republic of Armenia by the producers.

Article 3. The Goods Subject to the Excise Tax and Tax Payers

1. The following goods shall be taxed by excise tax: beer, grape and other wines, wine ingredients, spirits, cigars, cigarillos and cigarettes with tobacco or its substitutes, petrol and diesel fuel.
2. The excise tax shall be paid by individuals, legal persons (including the branches and representatives of foreign legal entities registered in the Republic of Armenia) importing or exporting the goods subject in the RA to the excise tax.
3. For the goods subject to the excise tax manufactured (produced, bottled) in the territory of the RA according to the established procedure from the raw materials (including bottling, or other type of packaging) of the state registered producers or on the base of contracts with them, the client shall be considered as a taxpayer.
4. For the goods subject to the excise tax manufactured (produced, bottled) in the territory of the RA from the raw materials (including bottling or other type of packaging) of customers, who are not registered in the RA or on the base of contracts with them, according to the established procedure the manufacturer (producer, bottler) of these goods shall be considered as a taxpayer.
5. In case of conveying to the mortgagee the right to manage the mortgaged goods according to the established legal procedure, the mortgager shall be liable to pay the excise tax provided the latter is considered a taxpayer in accordance with the present law.

Article 4. The Object of the Tax and Taxable Base

1. The following shall be considered as the objects of excise tax:

- a) The goods subject to the excise tax imported to the Republic of Armenia under "import for free turnover" customs regime.
- b) The realization (including free of charge) in the territory of the Republic of Armenia of goods subject to the excise tax by the manufacturers (bottlers).

In terms of implementation of the present Article, the in-kind payment for the work with the goods subject to the excise tax, their exchange or transfer (for free provision, compensation or other type of realization) shall be considered as a taxable object.

2. In terms of the present Law as a taxable base shall be considered the actual amount of the quantity (volume) of the goods subject to the excise tax, to which the legally established rates are applied to calculate the excise tax amount.

Article 5. Excise Tax Rates

1. The following excise tax rates shall be established:

Code of the production according to the trade nomenclature of the External Economic Activity	Name of the group of products	Taxable base	Rate of Excise Tax (Dram)
2203	beer	1 liter	70
2204	grape and other wines, wine ingredients, including		100
220410	Frothy wines,	1 liter	180
	Champaign		300
2205	Vermouth and other types of wine that contain vegetarian and other aromatic extracts	1 liter	500
2206	Other brewed drinks (apple cider, Pearnu (pear cider), honey-drinks)	1 liter	180
2207	Ethyl spirit	1 liter (by re-calculation of 100% spirit)	600
2208	Spirit Drinks, including		1,500
220820	made from distillation of grape wine and wine ingredients (cognac, armanyak, etc.)	1 liter	1,200
220860, 220870	Vodka, liquor, and fruit-vodka		300
2403	Tobacco substitutes	1 kilogram	1,500
2710 00 690	Diesel fuel	1 ton	11,500
2711 (excluding 2711 11 and 2711 21)	Oil gas and gaslike other hydrocarbons (except for natural gas)	1 ton	1,000

2. According to clause 1 of this Article for the goods under 2208 code with spirit concentration over 40 percent the tax rate shall be increased by additional 7.5 drams for each percent exceeding 40 percents.

3. The excise tax rates of tobacco products and petrol are determined by separate law.
4. The Law may establish fixed payment instead of excise tax.

Article 6. Excise Tax Privileges

1. The following shall not be subject to the excise tax:
 - a) Goods subject to the excise tax exported from the Republic of Armenia, provided that the documents stated in the clauses (a) and (b) of the Article 9 of the present law are submitted.
 - b) Goods subject to the excise tax imported to and exported from the customs territory of the Republic of Armenia under customs regimes established by the customs legislation different from "Import for free turnover" regime.
 - c) Import and realization of goods subject to the excise tax confiscated in accordance with the procedures established by the legislature, goods recognized as having no owner and transferred to the State, as well as good transferred to the State by the right of inheritance.
 - d) Goods subject to the excise tax imported to the Republic of Armenia by the individuals who are not entrepreneurs, by the part not exceeding the customs value or the quantity of the goods established by the customs legislation.
2. The Law may define another privileges of excise tax.

Article 7. Labeling of Some Goods Subject to the Excise Tax

1. The Government of the Republic of Armenia may establish the procedure of labeling of some of the goods subject to the excise tax imported to or exported from the Republic of Armenia.
2. The amount paid by the excise taxpayers to obtain the excise stamps shall be considered as a prepayment of the estimated excise tax, and for those who pay presumptive tax instead of excise tax, according to the procedure established by the legislation, such payment shall be considered as reduction from presumptive tax, and may not offset other tax liabilities.

Article 8. Excise Tax Payment and Terms of Calculation

1. Taxpayers (liable to pay the tax) importing to the Republic of Armenia goods subject to the excise tax shall pay the excise tax within 10 days after import, in accordance with the procedure established by the Government of the Republic of Armenia.
2. For the taxpayers (liable to pay the tax) producing goods subject to the excise tax in the Republic of Armenia the reporting period shall be established every month, according to the procedures of the present Law.
3. The taxpayers stated in the clause 2 of the current Article for every reporting period shall pay the tax before 15th of next month and shall present to the appropriate local tax inspection the calculation of the excise tax, in accordance with the procedure established by the Ministry of State Revenues of the Republic of Armenia.

4. The miscalculations and mistakes made by the taxpayers in calculating the tax amount for the reported period may be identified and corrected by the payers, and corrected accounts may be submitted in accordance with the established procedure. The terms and submission procedure shall be approved by the Ministry of State Revenues with concordance with the Ministry of Finance and Economy of the Republic of Armenia.
5. Starting from July of 2001 for each 12-month period the tax rate estimated according to the present Law shall be increased in percentage by the ratio of actual growth of consumption prices index reported for the previous year, which is regularly published by the Ministry of State Revenues before June 1st of the given year, in accordance with the procedure established by the Government of the Republic of Armenia.
6. The amount of the excise tax paid in accordance with this Law by the taxpayers, producing goods subject to the excise tax in the Republic of Armenia for the raw materials subject to the excise tax which is purchased in or imported to the Republic of Armenia shall be deducted from the total amount of the excise tax paid by them for the reporting period, proportionately to the realization of the goods subject to the excise tax. The terms of pay-sheets submission, their completing procedure and the procedure of deductions from excise tax for purchased raw materials, shall be established by the Government of the Republic of Armenia.

Article 9. The Pay-Back Procedure of the Excise Tax

1. The amount of the excise tax paid by the state registered individuals for export of goods taxed by excise tax obtained from those who pay excise tax in the Republic of Armenia, shall be offset against other tax liabilities of the taxpayer, or returned in accordance with the procedure established by the legislation, provided the following documents are presented:
 - a) The copies of pay-sheets and documents evidencing the payment for the goods from excise taxpayers in the Republic of Armenia.
 - b) The copy of customs declaration with the note "The pass is allowed", completed in accordance with the procedure established by the customs legislation.
2. The pay back of the tax amount shall be fulfilled in accordance with the procedure established by the legislation, on the basis of excise tax calculations done for every reporting period established according to this Law, within 30 days following the submission of taxpayer's application and all the documents stated in the first clause of this Article.

Article 10. Responsibilities for Violation of the Law

1. The violation of the present Law entails responsibilities according to the procedure according by the legislation.
2. In case of concealing or presenting less than real the taxable base and (or) the object taxable by excise tax, it shall be collected from the taxpayer as well as the penalty paid on 100% scale of the concealed or lessened amount of excise tax.

3. For submission of more than one of each corrected excise tax payment document for every reporting period according to the procedure stated in the 4th clause of the Article 8 of this Law, the taxpayers shall pay fine of 200 thousand Dram.

Article 11. Administrative Normative Acts Connected with the Implementation of this Law

In regards of implementation of this Law the administrative normative acts shall be adopted by the State Revenue Ministry of the Republic of Armenia with concord of the Ministry of Finance and Economy of the Republic of Armenia.

Article 12. The Law Getting Into Force

1. The following Laws of the Republic of Armenia: "On Excise Tax" dated June 24, 1997, "On the Changes in the Law on Excise tax" dated September 24, 1997, "On the amendments to the Law on Excise Tax" dated April 14, 1998, "On the Changes in the Law on Excise Tax" dated July 27, 1998, shall be declared void from the moment of getting into force the present Law.
2. This Law shall enter into force from August 1, 2000.

Explanatory Note

On the Draft of the Law of the Republic of Armenia "On Excise Tax"

The draft of the new Law of the Republic of Armenia "On Excise Tax" suggests a number of principal changes in the procedure of excise tax calculation and payment, as well as in the tax rates.

- 1. Reduction in the number of goods subject to the excise tax.** The draft suggests exclusion from the list of the products subject to the excise tax those that do not generate significant revenue flow to the state budget but at the same time require serious administrative costs. Such goods include accessories made of natural leather, natural furs, and articles made of it, porcelain and crystal articles, jewelry, bijoux, and caviar, which produced about 150mln. Dram revenue to the state budget in 1999.
- 2. Presumptive Collection of Excise Tax.** It is proposed in the draft to replace the existing value based procedure of excise tax calculation with presumptive (specific) tax rates. At present the rate of 50% is established for the beer and wines, and 125% for other alcohol drinks. The sum of excise tax and VAT (indirect taxes) in terms of net prices (manufacturer's prices without indirect taxes) for the first group of aforementioned products equals 68%, and for the second group - 170%.

The main disadvantage of the current taxation procedure (value based calculation) is that the value based excise tax application facilitates through price transfer decrease of the estimation base of excise tax sum, considering that the excise tax liability is put only on the producer. In these circumstances there are often cases when the producer establishes a branch for wholesale operations and organizing the full sales through this branch, documents the realization of spirit drinks by artificially lowered prices and reduces the excise tax calculation base.

To resolve this problem it is suggested to fix presumptive (not value based) excise tax for all types of products subject to excise tax, that will prevent such an abuses, together with the new spirit drinks' labeling procedures (where on the stamps there will be stated both the particular type of spirit drink and the capacity of the labeled tare).

The presumptive (specific) rates of the excise tax for the spirit drinks proposed in the draft are taken with the estimation of the minimal rates of existing in the retail market sale prices of the alcohol drinks

Name of the Group of Products	Taxable Base	Tax Size	Equivalent to the following prices with the current rate (including Excise and VAT)
Beer	1 liter	50	180
Grape and other wines, wine ingredients including		150	540
Frothy wines	1 liter	180	650
Champagne		300	1,080
Vermouth and other types of wine with vegetarian and other aromatic extracts additions	1 liter	500	1,800
Other brewed drinks (apple cider, Pearru (pear cider), honey-drinks)	1 liter	180	650
Ethyl spirit	1 liter (with re-calculation of 100% spirit)	1,200	2,592
Spirit Drinks, including those made from distillation of grape wine and wine ingredients (cognac, armanyak, etc.)	1 liter	1,500	3,240
Vodka, liquor, and fruit-vodka		1,200 600	2,600 1,296

In principle, the draft of the Law does not suggest to increase the current rates for any type of product established by the Law. As to the other types of products included in the draft of the Law - diesel fuel, the tax rate here is equal to the currently existing amounts (the excise tax is calculated by the 10% rate in regards to the customs value).

3. **Regulation of the offsets of excise tax amounts paid for spirit from the excise tax amounts paid for spirit drinks.** In general, concerning the control on the payment documents provided for spirit sales, the draft suggests to establish a mechanism which will allow to make offsets only on the base of payment documents meeting the requirements of the Government of the Republic of Armenia. This step will prevent the false reduction of excise tax amounts payable for spirit drinks in the delivery payment documents.
4. **Integration of excise tax payment and tax payment documents submission terms.** At present the producer is obliged to pay the excise tax in the course of 10 days for the goods sold during the previous 10-day period, while the accounts are presented monthly, for the goods sold during the previous month. Obviously, this mechanism does not ensure the proportionate distribution of month payments by decade's realization, because the accounts are being presented for different period. The draft suggests to combine the terms of accounts submission and tax payment and fix the deadline for both on the 15th day of a next month.

**The need for other laws modifications in case of adoption of the Draft
and its possible affection on State revenues.**

The adoption of the Draft in general will have a positive affection on State revenues. A lot will depend on the present volume of undeclared excise tax base.

In case of adoption of the new Law "On Excise Tax" the present active Law with its amendments and changes shall be deemed void, as it is stated in the first clause of Article 12.