



This document has been provided by the International Center for Not-for-Profit Law (ICNL).

ICNL is the leading source for information on the legal environment for civil society and public participation. Since 1992, ICNL has served as a resource to civil society leaders, government officials, and the donor community in over 90 countries.

Visit ICNL's **Online Library** at
<http://www.icnl.org/knowledge/library/index.htm>
for further resources and research from countries all over the world.

Disclaimers

Content. The information provided herein is for general informational and educational purposes only. It is not intended and should not be construed to constitute legal advice. The information contained herein may not be applicable in all situations and may not, after the date of its presentation, even reflect the most current authority. Nothing contained herein should be relied or acted upon without the benefit of legal advice based upon the particular facts and circumstances presented, and nothing herein should be construed otherwise.

Translations. Translations by ICNL of any materials into other languages are intended solely as a convenience. Translation accuracy is not guaranteed nor implied. If any questions arise related to the accuracy of a translation, please refer to the original language official version of the document. Any discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes.

Warranty and Limitation of Liability. Although ICNL uses reasonable efforts to include accurate and up-to-date information herein, ICNL makes no warranties or representations of any kind as to its accuracy, currency or completeness. You agree that access to and use of this document and the content thereof is at your own risk. ICNL disclaims all warranties of any kind, express or implied. Neither ICNL nor any party involved in creating, producing or delivering this document shall be liable for any damages whatsoever arising out of access to, use of or inability to use this document, or any errors or omissions in the content thereof.

THE LAW OF THE REPUBLIC OF ARMENIA

Adopted by the National Assembly on September 30, 1997, in force from January 1, 1998

ON PROFIT TAX*

PART 1. GENERAL PRINCIPLES OF TAXATION

Chapter 1. General Provisions

Article 1. Objects Regulated by this Law

This Law regulates relations pertaining to the definition and payment of the profit tax in the Republic of Armenia, defines the circle of profit tax payers in the Republic of Armenia, profit tax rates, procedures on calculation and payment of the profit tax.

Article 2. Concept of Profit Tax

Profit tax is a direct tax to be paid by taxpayers into the state budget in the amount and according to the procedure established by this Law.

Article 3. General Basis for the Profit Tax Calculation

1. When determining the profit tax the calculation of the latter shall be carried out in accordance with the principles and rules established by the Laws and other legal acts regulating the accounting and financial reporting, unless the peculiarities of their application are provided by this Law.
2. Within the period of submitting the profit tax reports, the taxpayers shall inform the Tax Inspectorate body in a written form about the principles and rules of accounting and financial reporting chosen by them, as well as of any changes, provided the right of choice is granted to them by the Law or other legal act.
3. When determining the taxable profit, assets and liabilities are considered by their initial (purchase) cost¹, with the exception of the results of revaluation carried out according to the procedure established by the Law.²
4. When determining the taxable profit, only the incomes and deductions raising due to creation of reserves (reserve fund) defined by this law are taken into consideration.³

* Includes all amendments and additions as of 01.01.2002.

¹ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

² With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

³ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

- c) any means belonging to the taxpayer by the ownership right, including property (tangible assets), proprietary rights and personal non-proprietary rights related to the proprietary rights (intangible assets), foreign currency, securities, receivables, and other property, shall be considered as assets;
 - d) the indebtedness of a taxpayer (credit, payables, tax liability, etc.) shall be considered liability.
2. The following items shall be considered income, namely:
- a) revenue from the sales of goods, output (hereinafter - goods);
 - b) revenue from the sales of services;
 - c) revenue from the sales of fixed and other assets;
 - d) interest and other compensation received on loans (hereinafter - interest);
 - e) payments and other compensation (hereinafter - lease payments) received from the lease;
 - f) compensation received for the use or the right to use any copyrights on the pieces of literature, art or science, of any patents, trade marks, projects or models, plans, classified formulae or processes, software for computers and databases, the use or the right to use industrial, commercial or scientific equipment, as well as for the provision of information on industrial, technical, organizational, commercial and scientific experience (hereinafter - royalty);
 - g) dividends;
 - h) insurance compensation;
 - i) income derived from financing liabilities or commercial transactions, or from the implementation of other factoring operations;
 - j) income received from futures, options and other similar transactions;
 - k) gratis assets, income from discount, or remission of liabilities, **with the exception of the amounts of tax privileges provided by the Law;**⁶
 - l) income received from compensation for the damage caused (losses incurred);
 - m) income received in the form of penalties, fines and other proprietary sanctions;
 - n) income received from transactions recognized as invalid;
 - o) amounts of bad payables written off according to the procedure established by *(deleted words)*⁷ the Government of the Republic of Armenia, and in case of banks – jointly by the body authorized by the Government of the Republic of Armenia and by the Central Bank of the Republic of Armenia;⁸
 - p) amount used to cover bad debts written off earlier from the balance sheet, according to the procedure established by *(deleted words)*⁹ the Government of the Republic of Armenia, or in case of banks – jointly by the body in question and the Central Bank of the Republic of Armenia¹⁰, and in case of covering a not written-off liability - the amount of allowances performed according to the established procedure;
 - q) the reduced income revealed within the reporting year and/or the excessive deduction of income within the three directly preceding years;
 - r) income received from the provision of banking guarantees, or accept operations;

⁶ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁷ With deletion according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", in force from 01.01.2002. Initial text – "the body authorized by". This deletion enters into force from 01.07.2002.

⁸ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁹ With deletion according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", in force from 01.01.2002. Initial text – "the body authorized by". This deletion enters into force from 01.07.2002.

¹⁰ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

Article 9. Deductions from the Gross Income

When determining taxable profit, it shall be allowed to make deductions from the gross income provided by this Chapter (expenses, losses and other deductions). The amount of the same deductions may be executed from the gross income only once.

Article 10. Expenses

1. When determining taxable profit, the gross income shall be reduced in the amount of necessary and documentary supported expenses incurred on deriving it*.

For the purposes of this Law:

- a) the outflow and decrease of assets, or the growth of liabilities within the reporting year which leads to the decrease of the equity capital of a taxpayer, shall be considered as expenses;
- b) expenses incurred by a taxpayer exclusively and directly on the production of goods, provision of services, progress and / or realization in the goods (service) market, consulting and legal services, correction of short-comings found in the course of the accompanying, guarantee control and exploitation, the preparation, mastering and conservation of production (construction), safety of property, training of the staff, as well as other expenses related to the receipt of income and necessary for it shall be considered as necessary expenses.

Deleted paragraph¹⁸

2. Expenses shall include, in particular:

- a) material expenses;
- b) labor costs and other payments deemed equal thereto;
- c) **payments on the obligatory social insurance¹⁹**;
- d) depreciation allowances;
- e) insurance premiums;
- f) non-refundable (non-credited) taxes, duties and other obligatory payments;
- g) interest on loans and other borrowings;
- h) payments on guarantees, letters of guarantee, letters of credit and other banking services;
- i) advertisement expenses;
- j) representative expenses;
- k) business trip expenses;
- l) court expenses;
- m) compensation for the damage caused;
- n) fines, penalties and other proprietary sanctions, with the exception of cases defined in the clause "g", paragraph 1 of Article 16 of this Law;
- o) expenses on staff recruitment;
- p) expenses on audit, legal and other consulting, information and administrative services;
- q) expenses on factoring, trust operations;
- r) reduced expenses revealed in the reporting year for the three directly preceding years.

* RA GD 525 25.08.99 (with RA GD 693 30.10.00 editing) on defining the requirements for documents justifying the expenses and on approving the order of preparation of those documents.

¹⁸ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999. Initial text – "The RA Government defines the requirements for documentary justification of the expenses."

¹⁹ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

be established within the period of one year. The territory of the disaster area* mentioned in this Part shall be determined by the Government of the Republic of Armenia.²⁵

*The minimal period for depreciation of the capital goods worth of under 50 000 drams is one year.*²⁶

3. The depreciation period of intangible assets shall be determined by the taxpayer on the basis of the period of possible effective use thereof. In case of impossibility to determine the period in question, the minimum depreciation period of intangible assets shall be set as 10 years, though not to exceed the period of the taxpayer's activity.
4. For the purposes of determination of the taxable profit the taxpayer may choose another period of the fixed assets at his/her discretion, but not to be less than one of the above-mentioned periods for the given group.
5. The annual value of depreciation allowances shall be calculated as the division of the initial cost or - in case of revaluation carried out according to the procedure established by the Law – the revalued cost²⁷ of fixed assets on the depreciation period determined for the given group of fixed assets, mentioned in paragraphs 2, 3 or 4 of this Article, or for intangible assets.

Article 13. Expenses Incurred on the Fixed Assets²⁸

1. When determining taxable profit, the gross income shall be reduced:
 - a) in the amount of current expenses incurred on the fixed assets;
 - b) for the lessee - in the amount of current expenses incurred on the leased fixed assets;
2. Expenses of the capital character incurred on the fixed assets shall be added to the initial cost of the fixed asset, on which those expenses were incurred, and shall be depreciated according to the procedure established by Article 12 of this Law.
3. Expenses of the capital character incurred on the leased fixed assets shall be depreciated by the lessee according to the procedure established by Article 12 of this Law. In case of a cessation and actual termination of the lease agreement, the incompletely depreciated remainder *shall not be deducted*²⁹ from the gross income of the lessee.
4. For the purposes of this Law, the differentiation of expenses, incurred on the fixed assets (including leased), between current and capital ones shall be made on the basis of the criteria* defined by the Government of the Republic of Armenia.

Article 14. Expenses on Preparatory, Drafting and Research Activities, Geological Research for the Extraction of Natural Resources

* According to RA GD 63 08.02.99, administrative territories of communities of appropriate settlements included in Appendix of RA GD 701, 11.11.98 "On Priority Program of Disaster Area Recovery" are considered disaster area.

²⁵ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 06.07.1998, in force from 20.08.1998.

²⁶ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

²⁷ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

²⁸ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

²⁹ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

* RA GD 161 11.04.00 On defining the differentiation criteria for current and capital expenses on fixed assets (including leased).

- j) expenses on the maintenance of servicing units (free provision of buildings, settling the fees for utilities of public catering enterprises);
 - k) expenses on services rendered by the taxpayer (or to the taxpayer) which are not related to the production of goods (town and other populated areas planning activities, promotion of agricultural activities, etc.);
 - l) **expenses related to gaining of those incomes that are deductible from gross income**³²
2. In case when the amount of possible reduction is not defined by the Government of the Republic of Armenia for the expenses provided by clauses "a" - "f" of this Article, the gross income shall be reduced in the total amount of actual expenses.

Article 17. Expenses incurred in consequence of transactions recognized as invalid

When determining taxable profit, the gross income shall be reduced in the amount of funds returned to the other party of the transaction in consequence of the recognition of the transaction as invalid.

Article 18. Amounts of Written-Off Bad Debts and Covering of Earlier Written-Off Bad Debts³³

- 1. When determining taxable profit, the gross income shall be reduced - in accordance with the procedure on writing off bad debts established by the Government of the Republic of Armenia **and in cases of banks, the entity authorized by the Government and the Central Bank of the RA**³⁴ - in the amount of allowances to the reserve fund, and in the case when these debts are written off - in the amount exceeding the amount of allowances to the reserve fund created for this purpose.
- 2. When determining taxable profit, the gross income shall be reduced in the amount of covering **bad debts written off earlier according to the procedure established by** (~~deleted words~~)³⁵ **the Government of the Republic of Armenia and in case of banks** - by the body in question and the Central Bank of the Republic of Armenia.³⁶

Article 19. Expenses Not Supported Documentary

- 1. When determining taxable profit, the gross income shall be reduced in the amount not exceeding the daily rates established by the Government of the Republic of Armenia** - without supporting documents.
- 2. **Has become invalid**³⁷

³² With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", in force from 01.01.2002.

³³ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

³⁴ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", in force from 01.01.2002.

³⁵ With deletion according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", in force from 01.01.2002. Initial text - "by the body authorized".

³⁶ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

** RA GD 753 27.11.98 On defining the maximal permissible rates of certain types of deductions from income for taxation purposes

³⁷ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text - "Besides the expenses defined in the above-mentioned paragraph, when determining the taxable profit, the

When determining taxable profit, the gross income shall be reduced:

- a) in the amount of assets (goods and/or cash) transferred (provided) to the **non-commercial organizations, libraries, museums, public schools, asylums, residential homes and orphanages**⁴⁰ as well as to the psycho-neurological and tuberculosis treatment infirmaries and hospitals, also in the value of services rendered thereto, but **not to exceed 0,25% of the gross income;**⁴¹
- b) **has become invalid**⁴²

Article 24. Assets Received Gratuitously

In terms of this law, assets gained gratuitously are considered as incomes within the reporting period when they are considered to be expenses or losses, irrespective of the fact of deduction of the mentioned expenses or losses from the gross income.⁴³

Article 25. Losses Incurred From the Taxpayer's Activity

1. When determining taxable profit, the gross income shall be reduced in the amount of losses incurred by the taxpayer in the course of the previous years. The exceeding of deductions from the gross income, established by the Law, shall be considered as a loss incurred from the taxpayer's activity.
2. For the purposes of the application of the mentioned deduction in case of a loss incurred from the taxpayer's activity within the reporting year and the preceding one, the loss shall be transferred to **the five years following the year when loss incurred**⁴⁴. **This limitation does not apply for banks.**⁴⁵

Article 26. Dividends

When determining taxable profit, the gross income shall be reduced in the amount of dividends received by the taxpayer, with the exception of the case provided in paragraph 2, Article 56 of this Law.

⁴⁰ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

⁴¹ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁴² According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text – "in the amount of assets transferred (provided) to the organizations specified in sub-clauses "a", "b" and "c" of Article 37 of this Law in the form of dividends or other assets (goods and/or cash) from the taxable income of legal persons fully belonging to these organizations, or in the amount of services rendered thereto."

⁴³ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

⁴⁴ Excerpt from RA law "On Amendments and Additions to RA law "On Profit Tax"" dated December 29, 2000:
"Article 23. ...

Independent of the effect of Article 12 of this law (Article 25 of the law) the losses accumulated before January 1, 2001 (including also by results of 2000) as a result of taxpayer activity, and not deducted from the gross income of previous years are subject to deduction from gross income before December 31, 2005."

⁴⁵ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

⁴⁶ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

transportation, safe keeping and expedition of values, belonging to the bank or its clients;

- f) payments for fringe services;
- g) expenses related to the production, issue, safe keeping and inculcation of the payment means, necessary for the bank activity (plastic cards, traveler's checks, etc.);
- h) expenses on the issue of shares, bonds, certificates, other liabilities and securities being in circulation in the financial market (expenses on preparation of emission prospects, acquisition, printing of securities, payments of mediator rewards for spreading the securities);
- i) losses incurred by a bank because of counterfeit banknotes and payment documents.

Article 31. Deductions from the Gross Income of Insurance Companies for the Purposes of Taxation

For the purposes of taxation, in addition to the deductions defined in Articles 10 -29, the gross income of insurance companies shall be reduced also in the amounts of:

- a) insurance (reinsurance) compensation;
- b) transferred insurance payments on reinsurance;
- c) allowances to the reserves of preventive measures, **(deleted word)**⁴⁶ expenses on the transportation, maintenance and expedition of values belonging to **insurers**⁴⁷ and the insured;
- d) allowances to the **reserves of insurance**⁴⁸;
- e) commission paid to insurance agents and brokers;
- f) payments for the fringe services;
- g) expenses related to the production, issue, safe keeping and inculcation of payment assets necessary for the activity of insurance companies (traveler's checks, plastic cards, etc.).

Article 32. Deductions From the Gross Income in the Line of Expenses

1. Deductions from the gross income in the amount of expenses directly related to the production of goods and provision of services (material, labor costs, social insurance, etc.) shall be made in accordance with the sales of the goods and services in question.
2. Deductions from the gross income in the amount of the cost of goods purchased from the taxpayers implementing trade activity shall be made in accordance with the sales of these goods.
3. Deductions from the gross income in the amount of the residual **(deleted word)**⁴⁹ value of the assets not provided by paragraphs 1 and 2 of this Article (fixed and other assets) shall be made in accordance with the sales thereof (with amendment of 30.12.98.).

⁴⁶ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999. Initial text – "including".

⁴⁷ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁴⁸ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁴⁹ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999. Initial text – "(balance)".

1. Taxpayers involved in agricultural production shall be exempt from the profit tax in the part of the income derived from the sales of agricultural production **by them**⁵⁵, as well as income derived from the sales of fixed and other assets, and in the amount of other income, if the latter does not exceed 10% of the gross income.
2. For the purposes of this Law the following products received through the biological processing of plants and animals for the final and intermediate consumption shall be considered agricultural production:
 - cereals and beans;
 - technical crops;
 - tuberous plants, vegetables and products of the covered soil;
 - fodder plants of field cultivation;
 - other products of fodder production;
 - products of gardens, vineyards, perennial plantations and floriculture;
 - seeds of trees and shrubs, as well as fruit seeds;
 - seedlings of trees and shrubs;
 - products of the cattle-breeding;
 - products of the pig-breeding;
 - products of the sheep-breeding and the goat-breeding;
 - products of the poultry farming;
 - products of the horse-breeding, ass-breeding and mule-breeding;
 - products of the deer-breeding and camel-breeding;
 - products of the rabbit-breeding, fur animal breeding and hunting;
 - **products of the fish-breeding**⁵⁶ (with amendments of 30.12.98.),
 - apiculture, silkworm cultivation and artificial insemination
3. In case of impossibility to make exact accounting of the income derived from agricultural production, the income shall be calculated on the basis of the net cadastral income data approved in accordance with the procedure established by the legislation of the Republic of Armenia.
4. **Has become invalid**⁵⁷

Article 37. Has become invalid⁵⁸

Article 38. Payments to the Disabled

⁵⁵ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁵⁶ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁵⁷ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text – "The privilege defined in this Article shall not refer to the taxpayers involved in the agricultural activity of industrial type. The differentiation between the types of agricultural activity shall be made on the basis of the criteria established by the Government of the Republic of Armenia. (with amendments of 28.12.98)."

⁵⁸ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text – **"Public, Religious and Non-Profit Organizations, Political Parties of the Republic of Armenia** (with amendments of 28.12.98) - According to the procedure established by the Law, the following entities registered in the Tax Inspectorate bodies of the Republic of Armenia shall be exempt from the profit tax in the part of income received from the activity provided for by the charter (with amendments of 28.12.98):

- a) public and religious organizations, political parties of the Republic of Armenia;
- b) condominiums, other non-profit organizations which have been organized and operate exclusively for religious, charity, scientific purposes, social security, protection of the environment, development and propaganda of literature, culture and education, protection of consumer rights, promotion and organization of amateur sports, protection of human rights, rights of women, children, and the elderly, in case when any part of their income is not distributed between the participants in income or other persons and is used exclusively for the charter purposes;
- c) libraries, museums, public schools, boarding-schools, nursing and children's homes, in case when any part of their income is not distributed between participants in income or other persons and is used exclusively for the charter purposes."

discretion up to the expiration of the validity period, established by this Law or other legal act, on the basis of the application on the privilege submitted to the Tax Inspectorate bodies.¹

Article 40. Has become invalid⁶¹

Article 40¹. The profit tax payment period for services (transactions) for drinking and irrigation water supply and sewage as well as goods and services supplied within the framework of state procurement in accordance with the Law "On state procurement" by January 1, 2006 is prolonged till the payment period against the sale of these services and goods.⁶²

Article 41. Profit Tax Privileges Defined by Other Laws

The Law may establish other privileges on the exemption from the profit tax and those provided by the tax legislation of the Republic of Armenia.

Chapter 7. Tax Accounting

Article 42. Accounting on the Accrual Basis

When determining the object of taxation, accounting of the income and expenses shall be performed on the accrual basis.

When the accounting is performed on the accrual basis, the taxpayer accounts income and expenses respectively from the moment of the acquisition of the right to receive such income or to recognize the expenses, irrespective of the actual period of deriving such income or making the payments.

Article 43. Peculiarities of Accounting on the Accrual Basis

When accounting income on the accrual basis, the taxpayer shall take into consideration the following peculiarities:

- a) the right to receive income is deemed acquired when the corresponding amount is subject to unconditional payment (compensation) to the taxpayer, or when the taxpayer has fulfilled the liabilities of the transaction or the contract, even if the moment of fulfillment of this right is deferred, or the payments are made in parts;
- b) in case of the provision of services by a taxpayer, the mentioned right is deemed acquired from the moment of finishing the provision of services (also step by step) related to the transaction;
- c) when receiving income in the form of interest or from the lease of the property, the right to receive income is deemed acquired from the moment of the expiration of the

⁶¹ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text "Deferred Payment of the Profit Tax -The payment period of the profit tax on the transactions and operations related to the production, transportation and the sale of the natural gas, electric and thermal energy, drinking and irrigation water, realization of drain services, railway transportation, as well as on the delivery of goods and provision of services in accordance with the Laws and legal acts regulating state purchases and state order, shall be transferred to reporting period of payments on the sales thereof (with amendments of 05.05.98)."

⁶² With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", in force from 01.01.2002.

2. Advance payments shall be made monthly, in the amount of 1/16 of the actual amount of the profit tax for the previous year, not later than on the 25th day of the current month (and in case when it is a holiday, from the first working day next to the holiday). In case of the failure to make advance payments within the set terms, the Tax Inspectorate bodies shall present claims on the amounts of these advance payments and fines accrued thereon.
3. A newly established taxpayer may not make advance payments of the profit tax up to April 25 of the following year, having notified the Tax Inspectorate bodies in advance.
4. A taxpayer may not make advance payments of the profit tax after the submission of tax accounts, provided that he/she did not have taxable profit in the preceding year, or in case when the amount of taxable profit for the preceding year did not exceed 500.000 drams.
5. Prior to the calculation of the actual amount of the profit tax for the preceding year, the taxpayer shall make monthly advance payments of the profit tax in the amount constituting not less than the last advance payment in the preceding year.
After the amounts of the actual profit tax for the previous year became known, the verification of the amounts of advance payments, which were made during the current year prior to the submission of calculations, shall be performed during the first advance payment following the submission of profit tax calculations – according to the total amount growing from the beginning of the year and the rates mentioned in clause 2 of this Article.⁶⁴
6. In case of planning the taxable profit in the current year to be less than that of the preceding year, the taxpayer shall independently determine the amount of a monthly advance payment and **presents a written notification thereon to the Tax Inspectorate bodies not later than on the date of submitting the profit tax calculations**⁶⁵ (with supplement of 30.12.98.). In case when the total annual amount of the advance payments constitutes less than 75% of the actual profit tax for the current year, the taxpayer shall pay a fine **in regard of the amount of the difference between 1/16th of the actual profit tax and the advance payment actually made within the current month - starting from the day set for making the advance payment by clause 2 of Article 47 of this Law**⁶⁶ till the day when the actual amount of the profit tax became known to the Tax Inspectorate body (prior to the day of submitting the calculation of the profit tax).

Paragraph deleted⁶⁷

Paragraph deleted⁶⁸

⁶⁴ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁶⁵ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁶⁶ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁶⁷ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text – "In case of applying to the Tax Inspectorate bodies prior to the term of submitting the profit tax calculations for activities of season character, it shall be allowed to make monthly advance payments coordinated with the Tax Inspectorate body." (with amendments of 28.12.98).

⁶⁸ According to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text – "Indexes of activities of season character shall be determined by the Government of the Republic of Armenia " (with amendments of 28.12.98).

April 25 (inclusive) of the year following the reporting one.

Article 51. Correction of Profit Tax Calculations

In cases when a taxpayer finds errors in the calculation of the profit tax submitted for the previous reporting periods (which are not observed in the records of the accounting), the taxpayer may submit to the Tax Inspectorate a corrected calculation, on the basis of which the recalculation of tax liabilities for the periods in question shall be produced, in accordance with the procedure established by the Law.

Article 52. Set-off of the Amount of the Profit Tax Paid from the Income Received in Foreign Countries

The profit tax levied on the amount of the profit of a taxpayer in the Republic of Armenia shall be reduced in the amount of the profit tax withheld from the residents in foreign countries in accordance with the legislation of the mentioned countries. Along with this, the amount of the reduced profit tax may not exceed the amount of the profit tax to be paid in Armenia, in accordance with this Law, on the income received in a foreign country.

If the amount subject to deduction according to the first section of this article exceeds the profit tax liability raised based on results of the reporting period, the exceeding amount shall be deducted from profit tax amount of the succeeding years.⁷⁰

PART 2. TAXATION OF A NON-RESIDENT

Chapter 9. General Provisions

Article 53. Income Received from Armenian Sources

1. For the purposes of this Law the following income shall be treated as income received from Armenian sources:
 - a) income derived from the business activity implemented by a non-resident in the territory of the Republic of Armenia;
 - b) passive income of a non-resident received from a resident or a non-resident;
 - c) other income derived by a non-resident in the Republic of Armenia;
2. The following income shall be considered as income derived from business activity in the territory of the Republic of Armenia:
 - a) income derived from the sales of goods and products, provision of services in the Republic of Armenia, irrespective of the place of payment;
 - b) income derived from mediatory activities in the Republic of Armenia;
 - c) income derived from administrative, financial and insurance services, provided that this income is considered as expense for the paying subdivision or place.

⁷⁰ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

3. Business agent is a legal person considered to be a resident, enterprise without the status of a legal person, or an individual, whose activity is controlled by the non-resident through a letter of authority, trust administration contract, a power of attorney, or in any other way, and who performs the activity for a non-resident (authorizing person), for the following purposes:
 - a) organization of purchases, arrangement of purchases and signing of other agreements;
 - b) establishment of contractual agency relationships with a third party, regular accumulation and storage of goods, belonging to the authorizing person, delivery of such goods to other persons on behalf of the authorizing person;
 - c) representation of the authorizing person when signing trade agreements or performing purchase orders.

Chapter 10. Determination of the Taxable Profit for a Non-Resident

Article 55. Peculiarities of Defining a Taxable Object

1. For the purposes of this Law the activity related to the import of goods belonging to a non-resident into the Republic of Armenia (on the availability of customs documents for the goods and absence of mediator - agents in the operation in question) performed exclusively on behalf of the non-resident, in the case of which the resident becomes the owner of the goods prior to their crossing the state border of the Republic of Armenia, shall be considered as external economic activity.
2. Income received from the external economic activity of a non-resident shall not be subject to taxation.
3. In case when some conditions different from the usual practice occur between a non-resident and a third person, the Tax Inspectorate bodies may make tax adjustments, in accordance with the procedure established by the tax legislation*, in respect of any income which might have been accounted by the taxpayer, however was not, due to the current conditions.
4. In case when a non-resident performs the activity not only in the Republic of Armenia but also outside it without keeping separate accounting, thereby preventing the determination of the taxable profit derived from the activity implemented through the subdivision, or place of business, the taxable profit may be determined on the calculation basis - according to the method agreed by the Tax Inspectorate and the taxpayer. The method agreed shall serve as a basis for determination of taxable profit, until there is a weighty reason for changing it.
5. Taxable profit derived from the activity of a subdivision, or place of business in the Republic of Armenia may be determined based on the share of the total revenue from the sales of goods (services) derived from the activity in the Republic of Armenia in the gross revenue from the activity of a non-resident, as well as on the share of expenses related to the activity implemented in the Republic of Armenia, in the total expenses of a non-resident or on the share of employees of a non-resident working in Armenia in the total staff of the non-resident.

* RA GD 753 27.11.98 On Specifying the Maximal Permissible Rates for Certain Types of Deductions from the Gross Income, for Taxation Purposes.

and other passive income (with the exception of the income received from the freight) as well as other income received from Armenian sources 10%⁷³

Dividends received by non-residents from Armenian sources by the rate defined by the first section of this clause shall be taxed by rate of zero, provided that the following conditions are in place at the same time:

- a) non-residents gaining dividends are not subject to profit taxation in the country of residence**
- b) participation (share, stock) dividends are gained from, belonged to the non-resident no less than 2 calendar years**
- c) in charter fund of resident distributing dividends, the participation of non-resident gaining dividends within the two calendar years preceding the day of payment of dividends, made no less than 25 percent**
- d) non-resident gaining dividends is their actual owner**
- e) the organization distributing dividends is presented a certificate issued by tax entity by order established by the Government of the Republic of Armenia, stating that the non-resident gaining incomes meets all requirements specified in points “a” and “d” of this section.^{74*}**

2. The amounts withheld (imposed) by a tax agent at the mentioned rates shall be considered as the final amount of the profit tax paid by the non-resident in the Republic of Armenia, with the exception of the cases when non-resident performs activities the Republic of Armenia through a subdivision, or a place of business recognized by the Tax Inspectorate, and this income results from the activity of the subdivision or the place of business in question.

3. In case of impossibility of withholding the tax at the source of income payment (i.e. in case of unavailability of tax agent) the liability of profit tax payment to the state budget of the Republic of Armenia bears the non-resident gaining incomes from Armenian sources in accordance with the procedures specified in article 60 to 63 of this Law.⁷⁵

Article 58. Exemption from Withholding of the Profit Tax at the Source

In case when the income paid to a non-resident from Armenian sources results from the activity of a subdivision, the latter shall submit to the tax agent a reference, confirmed by the corresponding Tax Inspectorate body of the Republic of Armenia, about the registration in the Tax Inspectorate bodies, and the availability of a taxpayer's indemnification number, on the basis of which the non-resident shall be exempt

⁷³ With amendment according to RA Law “On Amendments and Additions to RA Law “On Profit Tax””, adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

⁷⁴ With addition according to RA Law “On Amendments and Additions to RA Law “On Profit Tax””, adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

* Excerpt from RA law “On Amendments and Additions to RA law “On Profit Tax”” dated December 26, 2000:

“Article 23. This Law comes into force from January 1, 2001, except sub-point “a” of Article 22 (point 1 of Article 57 of the Law), which enters into force from July 1, 2001, and except Article 17 (Article 40 of the Law), which comes into force from January 1, 2002.

By the effect of sub-point “a” of Article 22 of this Law the profit tax from the interest received from Armenian sources by non-residents within the period from July 1, 2001 to July 1, 2002 shall be calculated and paid at the rate of 5%. ...”.

⁷⁵ With addition according to RA Law “On Amendments and Additions to RA Law “On Profit Tax””, in force from 01.01.2002.

The profit tax, subject to the additional payment to the budget after the calculation (final calculation) performed according to the established procedure, shall be paid or the repayment shall be compensated in the course of a month after receiving the payment notification, according to the procedure established by the legislation of the Republic of Armenia.

Article 64. Withholding of the Profit Tax at Source

Pursuant to Article 57 of this Law, withholding (imposing) of the profit tax at the source shall be performed by a tax agent from the total amount of the income paid to a non-resident.

Article 65. Recounting of the Income Received In-Kind

In case of paying income in-kind (including barter transactions), the tax agent shall recount the income into money, according to the procedure and terms specified by the legislation of the Republic of Armenia, and shall pay the profit tax to the budget.

Article 66. Terms of Payment of the Profit Tax Withheld by a Tax Agent and Submission of Calculations

The amount of the profit tax, withheld (imposed) in accordance with Article 64 of this Law, shall be paid by a tax agent to the **budget not later than the 5th day of the month following the payment of income to non-resident**⁷⁷. Along with this, the tax agent must submit quarterly a summary calculation (report) pursuant to the established form to the Tax Inspectorate of his/her location, not later than on the first day of the second month of the following quarter, on the amounts of the income paid to non-residents in the preceding quarter and on the amounts of the profit tax withheld and paid to the budget.

In case of finding errors in the aggregate calculations submitted for previous reporting periods itself, the tax agent may present to tax authorities an adjusted declaration based on which tax liabilities for those periods are recalculated.⁷⁸

Article 67. Issue of a Reference on the Taxes Paid

On the basis of the application of a non-resident, the Tax Inspectorate shall issue a respective reference on taxes paid by the non-resident in the Republic of Armenia in accordance with this Law.

The amount of the profit tax in the mentioned reference shall include also the amount that was to be paid in the Republic of Armenia, however was not, in consequence of using tax privileges defined by this Law.

Article 68. Tax Control

The Tax Inspectorate is entitled to check financial, accounting and tax activities of the non-residents implementing business activity through a subdivision, or place of business in the Republic of Armenia, and to check the correctness of withholding the profit tax by a tax agent and the payment thereof to the budget.

⁷⁷ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", in force from 01.01.2002.

⁷⁸ With addition according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", in force from 01.01.2002.

Article 72. Entry of the Law into Force

1. This Law shall enter into force from January 1, 1998.
2. The Law of the Republic of Armenia "On Profit Tax", dated January 18, 1992 shall be declared void, including the amendments, from the moment of the entry of this Law into force.
3. The fixed payments⁸¹ shall be applied to the games with reward mentioned in Article 33 of this Law, organization of casinos, exploitation of playing machines with cash rewards and organization of computer games, as well as in other cases defined by the legislation of the Republic of Armenia, according to the procedure established by the legislation of the Republic of Armenia.

Chapter 14. Transitional Provisions

Article 73. Application of Privileges

1. Deductions defined in Article 25 of this Law shall be applied to the losses incurred after January 1, 1997.
2. Temporary privileges effective prior to the entry of this Law into force shall remain valid till the expiration of their validity period.
3. **For the newly created enterprises using a tax privilege pursuant to the legislation, which is effective prior to the entry of this Law into force, the validity period of a privilege established for the taxpayer (in question) by Article 39 of this Law shall be reduced in the duration period of the privilege, provided for the taxpayer prior to the entry of this Law into force.**
4. **For the purposes of this Law, income received in the form of interest and from the discount of treasury bonds and other state securities of the Republic of Armenia issued in 1997 shall not be considered as income.**⁸² (see endnote ²)

Article 74. Application on Depreciation Allowances

1. In order to determine the amount of depreciation allowances defined in Article 12 of this Law in respect of the fixed assets as on January 1, 1998, the minimum depreciation (residual) period after January 1, 1998 shall be determined as the product of the coefficient of the non-depreciated value and the minimum depreciation period of the corresponding group, defined in paragraph 2 of Article 12 of this Law:

$$T_m = (V - A) * T/V$$

Where:

T_m – minimum depreciation (residual) period of the fixed asset purchased prior to January 1, 1998;

⁸¹ With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 28.12.1998, in force from 01.01.1999.

⁸² With amendment according to RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 05.05.1998, in force from 09.06.1998.

By RA TI Decree 01/36, 17.07.98 the instruction "On the Procedure of Calculating and Paying Profit Tax by Residents" was approved (see RA RDNA N 12, 24.09.98)

By RA TI Decree 01/13, 04.03.99 the instruction "On the Procedure of Calculating and Paying Profit Tax by Non-Residents" was approved (with editing of Decree N 02/605, 10.05.01)

Letter of Instruction "On the form of the reference specified in Article 58 of RA Law "On Profit Tax"" (see RA RDNA N6, 08.05.98)

Letter of Instruction "On the form of the summary calculation specified in Article 66 of RA Law "On Profit Tax"" (see RA RDNA N6, 08.05.98)

Instruction "On Amendment and Addition to the Instruction "On the Procedure of Calculating and Paying the Profit Tax by Residents"" (see RA RDNA N 14, 16.11.98)

Instruction "On Amendment and Addition to the Instruction "On the Procedure of Calculating and Paying the Profit Tax by Residents"" (see RA RDNA N 3, 15.03.99)

Letter of Instruction "On Forms Specified by Articles 60, 62 and 67 of RA Law "On Profit Tax"" (see RA RDNA N 3, 15.03.99)

¹ Those resident banks, which have an amount equal to at least 500 million Drams of total foreign investment in their statutory fund as of January 1, 1998, are exempt of fines and penalties for not paying monthly advance payments of profit tax, during the year 1988, until this law comes into force. (RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 05.05.1998, in force from 09.06.1998., Article 6).

² Tax amounts calculated from the income in the form of interest and discount from T-bills and other state securities issued in 1997, and paid to the Budget are to be returned according to the procedure specified by the Law. (RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 05.05.1998, in force from 09.06.1998., Article 4).

Tax agents, who have paid the taxpayers income in the form of interest and discount from T-bills and other state securities issued in 1997, before this law enters into force, are exempt of fines and penalties specified by Tax legislation, charged for not calculating the tax on that income or for calculating but not paying it to the Budget. (RA Law "On Amendments and Additions to RA Law "On Profit Tax"", adopted by RA National Assembly on 05.05.1998, in force from 09.06.1998., Article 5).