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# **THE LAW OF THE REPUBLIC OF ARMENIA**

Adopted by the National Assembly on December 27, 1997,  
in force from December 31, 1997

## **ON INCOME 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 income tax in the Republic of Armenia, defines the circle of the income tax payers, tax rates, procedures on calculation and payment of the income tax in the Republic of Armenia.

##### **Article 2. Concept of the Income Tax**

Income tax is a direct tax paid by the taxpayers (through a tax agent in cases specified by the Law) into the state budget in the amount and according to the procedure established by this Law.

#### **Chapter 2. Income Tax Payers and the Object of Taxation**

##### **Article 3. Income Tax Payers**

1. The income tax shall be paid in the Republic of Armenia by (the taxpayers are) individuals resident in (hereinafter referred to as "residents") and non-resident in the Republic of Armenia.
2. For the purposes of this Law an individual that, during any twelve month period starting or ending in a tax year (from January 1 to December 31 inclusive), has been resident in the Republic of Armenia for a total duration of 183 days or more, or whose center of vital interests is in the Republic of Armenia, as well as an individual in the civil service of the Republic of Armenia who is temporarily working outside the territory of the Republic of Armenia, shall be considered as a resident.

For the purposes of this Law the place where a person's family or economic interests are concentrated shall be considered the center of the person's vital interests. Interests

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\* Includes all amendments and additions as of 01.01.2002.

- m) payments and other compensation received for the lease (hereinafter - lease payments), as well as income received from other civil and legal contracts;
- n) insurance payments made by legal persons or enterprises without the status of a legal person, on behalf of **individuals except for mandatory social contributions defined by Law.**<sup>2</sup>

In-kind (non-monetary income) shall be accounted in the gross income (including the case of withholding (imposition) of the tax by a tax agent pursuant to the provisions of this Law) at the state fixed (regulated) prices or, in case of the absence of such prices, at free (market) prices, pursuant to the procedure established by the Government of the Republic of Armenia.

Income received by individuals in foreign currency shall be recalculated in drams of the Republic of Armenia, based on the exchange rate established by the Central Bank of the Republic of Armenia as on the day of the receipt of such income.

#### **Article 7. Components Not Deemed to Constitute Income**

For the purposes of this Law the following items shall not be considered as income:

- a) state benefits paid in accordance with the legislation of the Republic of Armenia, with the exception of benefits for temporary work disability and for the care after a sick member of the family;
- b) all types of pension paid in accordance with the legislation of the Republic of Armenia;
- c) one-time compensation paid in accordance with the legislation of the Republic of Armenia to the families of the fallen or disabled servicemen;
- d) alimony paid in accordance with the legislation of the Republic of Armenia;
- e) amounts received by individuals for donated blood, breast milk and other types of donation.

### **Chapter 4. Deductions From the Gross Income**

#### **Article 8. Deductions from the Gross Income**

1. When determining taxable income deductions provided for by this Law (deductible income, personal deductions and expenses) may be made from the gross income.
2. The same amount of deductions may be made from the gross income only once.

#### **Article 9. Income Deducted from the Gross Income**

When determining taxable income the following shall be subject to deduction from the gross income of the taxpayer:

- a) income of servicemen and persons considered equal thereto, pertaining to military service;

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<sup>2</sup> With addition according to RA Law "On Amendments and Additions to RA Law "On Income Tax"", adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

- p) additional pension paid on the terms of voluntary insurance of pension;
- q) amounts of lump-sum assistance paid in case of the death of an employee or a family member [thereof];
- r) the prizes won at international competitions and contests by athletes and **trainers**<sup>8</sup> - members of the national team of the Republic of Armenia;
- s) monetary winnings of the participants in lotteries implemented pursuant to the procedure and terms specified by the legislation of the Republic of Armenia, within the limits of ten thousand drams per each payment;
- t) the amount of **money and material winning**<sup>9</sup> received at competitions and contests.
- u) **Interest paid for servicing purpose loans that where taken for mortgage of buildings being built for the purpose of individual housing by physical persons.**<sup>10</sup>
- v) **State awards (prizes).**<sup>11</sup>

#### **Article 10. Deduction of Income Received from Securities**

1. When determining taxable income, unless provided otherwise by this Article, the gross income of the taxpayer shall be reduced:
  - a) in the amount of dividends received. For the purposes of this Law the income received from participation (part, share, stock) in the charter fund of a legal person or in the enterprise without the status of a legal person shall be considered dividends;
  - b) **in the amount of income derived in the form of interest or, in case of redemption, in the form of discount, from treasury bonds and other state securities;**<sup>\*12</sup>
  - c) **Has become invalid;**<sup>13</sup>
  - d) in the amount of the income received from the alienation of treasury bonds and other state securities, exchange [thereof] with other securities or from other similar transactions;
  - e) in the amount of the income received from the alienation of **shares**<sup>14</sup> or other securities attesting the investment, exchange [thereof] with other securities or from other similar transactions;

<sup>8</sup> With addition according to RA Law "On Addition to Article 9 of RA Law "On Income Tax"" adopted by RA National Assembly on 13.09.2000, in force from 30.10.2000.

<sup>9</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Presumptive Payments" and RA Law "On Income Tax"" adopted by RA National Assembly on 06.07.2000, in force from 01.08.2000.

<sup>10</sup> With addition according to RA Law "On Addition to Article 9 of RA Law "On Income Tax"" adopted by RA National Assembly on 06.07.1998, in force from 20.08.1998.

<sup>11</sup> With addition (see the Note) according to RA Law "On Amendment and Additions to RA Law "On Income Tax"", adopted by RA National Assembly on 26.06.2001, in force from 01.07.2001. Note: this point (with original text) was first added by ruling of RA Law "On Addition to RA Law "On Income Tax"" adopted by RA National Assembly on 11.09.2000, in force from 30.10.2000.

<sup>\*</sup> This point was considered invalid by ruling of RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.200, in force from 01.01.2001. Initial text – "in the amount of the income received from treasury bonds as interest or discount – in case of covering them;"

<sup>12</sup> With addition according to RA Law "On Amendment and Additions to RA Law "On Income Tax"", adopted by RA National Assembly on 26.06.2001, in force from 01.07.2001.

<sup>13</sup> Has become invalid according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text – "in the amount of income received as interest on bonds, or other securities attesting an investment;"

<sup>14</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

- \* Products of poultry farming
  - \* Products of horse-breeding, ass-breeding and mule-breeding
  - \* Products of deer-breeding and camel-breeding
  - \* Products of rabbit-breeding, fur animal breeding and hunting
  - \* Products of **fish-breeding**<sup>15</sup>, apiculture, silkworm cultivation and artificial insemination.
3. In the event of impossibility of accurate calculation of the income received from agricultural products it is calculated on the basis of the cadastral net income data, defined pursuant to the procedure established by the legislation of the Republic of Armenia.
4. **Has become invalid.**<sup>16</sup>

### **Article 12. Payments for Pension, Employment and Social Security**

1. When determining taxable income, the gross income shall be reduced in the amount of payments on pension, employment and social security made at the expense of a taxpayer.
2. The reduction, indicated in clause 1 of this Article, in cases provided by this Law, shall be calculated and made after the deduction from the gross income of the amounts of expenses defined by this Law pertaining to the receipt of individual types of income.

### **Article 13. Charity and Other Gratis Allocations**

When determining taxable income, the gross income shall be reduced in the amount of the total cost of means (goods and/or funds) transferred (provided) or services rendered to the organizations listed below, although not to exceed 5% of the taxable income calculated pursuant to this Law, namely:

- a) public and religious organizations, political parties of the Republic of Armenia;
- b) condominiums, those non-profit organizations that have been organized and operate exclusively for religious, charity and scientific purposes, testing for the purpose of public security, protection of the environment, development and propaganda of literature, culture and education, promotion and organization of amateur sport, protection of consumer rights, the rights of women, men, children and the elderly;
- c) libraries, museums, public schools, boarding-schools, nursing- and children's homes;
- d) psychiatric and tuberculosis treatment infirmaries and hospitals.

<sup>15</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

<sup>16</sup> Has become invalid according to RA Law "On Amendments and Additions to RA Law "On Income 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 apply to the taxpayers implementing agricultural activity of the industrial type (greenhouses and animal-breeding farms, cattle-breeding complexes, agricultural plants, poultry-keeping factories, etc.) in the part of the income derived from the sales of agricultural products that have undergone industrial processing. The differentiation of agricultural activity as agricultural activity of the industrial type shall be performed in accordance with the criteria established by the Government of the Republic of Armenia."

- c) in the amount of obligatory payments defined by Article 12 of this Law, provided the obligation to calculate and withhold (impose) such payments in accordance with the procedure established by the legislation of the Republic of Armenia rests upon the tax agent in question, who pays income to the individual.

## **Chapter 5. Income Tax Rates**

### **Article 18. Income Tax Rates<sup>20</sup>**

1. Except for the cases specified in *clauses 3, 4 and 5<sup>21</sup>* of this Article, the tax agents shall calculate income tax by the following rates:

Amount of Monthly Taxable Income	Tax Amount
Up to 80,000 drams	10 percent of taxable income
Over 80,000 drams	8,000 drams plus 20 percent of the amount exceeding 80,000 drams

2. Except for the cases specified in *clauses 3, 4 and 5<sup>22</sup>* of this article, income tax for incomes not taxed by tax agents shall be calculated by the following rates:

Amount of Annual Taxable Income	Tax Amount
Up to 960,000 drams	10 percent of taxable income
Over 960,000 drams	96,000 drams plus 20 percent of the amount exceeding 960,000 drams

3. Income tax for royalties and incomes gained from property lease shall be calculated by rate of 10 percent without taking into account the deductions specified by this law.
4. Income tax for interests shall be calculated by rate of 10 percent without taking into account the deductions specified by this law.\*
5. The tax agents calculate income tax liability at 10 percent rate, from incomes paid for acquisition of property to physical persons, taking into account only the reductions specified by articles 10 and 11 of this law.<sup>23</sup>

<sup>20</sup> Article 18 was amended according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

<sup>21</sup> With amendment according to RA Law "On Amendment and Additions to RA Law "On Income Tax"" in force from 01.01.2002.

<sup>22</sup> With amendment according to RA Law "On Amendment and Additions to RA Law "On Income Tax"" in force from 01.01.2002.

\* Excerpt – second part of Article 19 of RA Law "On Amendments and Additions to RA Law "On Income Tax"":  
 "Point 4 of Article 18 of RA Law "On Income Tax" amended by ruling of Article 8 of this Law shall be used on interest gained after July 1, 2001. Income tax from interest gained within the period from July 1, 2001 to July 1, 2002 shall be calculated and paid at the rate of 5%.  
 Taxation of interest does not provide tax bodies an additional authority to gather information that is considered a bank secret, on persons acquiring such income."

- b) in all other cases - at the rates defined in **clauses 1, 3, 4 and 5<sup>27</sup> of Article 18<sup>28</sup>** of this Law, from taxable income calculated pursuant to this Law.
2. Withholding (impost) of the tax shall be implemented on each payment. Along with this, in the event of each successive payment a progressive calculation of taxable income and tax shall be performed, based on the total amount of payments, paid to an individual by a tax agent at the given location of a payment **within a month<sup>29</sup>**, and from the amount of personal deductions.

## **Article 22. Peculiarities of Taxation of Foreign Citizens and Stateless Persons\***

1. When paying income to foreign citizens and stateless persons, the tax shall be withheld (imposed) by a tax agent at the source of paying the income (with the exception of the case mentioned in sub-clause "a" of clause 2 of Article 20) at the following rates:

Type of income	Amount (in %)
<b>Has been deleted<sup>30</sup></b>	
insurance benefits received from insurance and income received from freight	5%
royalties, <b>interests<sup>31</sup></b> , lease payments, increase in the value of property and other passive income (with the exception of income received from freight, as well as other passive income received from the sources in Armenia (as well as from business activity)	<b>10%<sup>32</sup></b>

2. The taxation shall be performed on the total amount of the paid income **with implementation of deductions, defined only in sub-clause "m"<sup>33</sup> of Article 9 of this Law<sup>34</sup>**. The income tax on salaries and wages and the income deemed equal thereto shall be calculated and withheld (imposed) at the rates specified in Article 18

<sup>27</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" in force from 01.01.2002.

<sup>28</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

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

\* Excerpt from RA Law "On Amendments to RA Law "On Income Tax"" adopted by RA National Assembly on 05.05.1998, in force from 09.06.1998:

"**Article 2.** Amounts of tax calculated from income derived in 1998 in the form of dividends and interest of foreign citizens and stateless persons, and paid to the budget, are to be returned according to the procedure specified by Law.

**Article 3.** Tax agents that have paid income in the form of dividends and interest to foreign citizens and stateless persons in 1998 before this Law comes into force, shall be exempt from fines and penalties provided by the tax legislation for not calculating tax from such income or for calculating but not paying it to the budget."

<sup>30</sup> According to RA Law "On Amendments to RA Law "On Income Tax"" adopted by RA National Assembly on 05.05.1998, in force from 09.06.1998. Initial text – "dividends, interest 15".

<sup>31</sup> With addition according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

<sup>32</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

<sup>33</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

<sup>34</sup> With amendment according to RA Law "On Amendments to RA Law "On Income Tax"" adopted by RA National Assembly on 05.05.1998, in force from 09.06.1998.

## Article 27. Accounting of Expenses

1. The following, in particular, shall be classified as expenses:
  - a) material expenses;
  - b) depreciation allowance;
  - c) lease payments;
  - d) insurance payments;
  - e) uncompensated (non-credited) taxes, duties and other obligatory payments;
  - f) interest on loans and other borrowings;
  - g) payments on guarantees, sureties, letters of credit and other banking services;
  - h) advertising expenses;
  - i) representative expenses;
  - j) court expenses;
  - k) business trips expenses;
  - l) indemnification for damage caused;
  - m) penalties, fines and other proprietary sanctions, with the exception of penalties, fines and other proprietary sanctions levied into the state or municipal budgets **as well as mandatory social contributions**<sup>39</sup>;
  - n) expenses on audit, legal and other consulting, information and management services;
  - o) expenses on factoring, trust operations;
  - p) expenses identified in the reporting year that have been reduced in the course of three years immediately preceding the year in progress.
2. The taxpayer's investment in other person's charter capital shall not be considered as expense.
3. In the event of the implementation of business activity, in respect of accounting depreciation allowances and other expenses, the norms fixed for expenses non-deductible from the gross income, the types of expenses established by the Government of the Republic of Armenia, **in terms of deduction of expenses from gross income as well as in terms of losses of entrepreneurial activities of the reporting year**<sup>40</sup>, the norms set for legal persons by the provisions of the Law of the Republic of Armenia on "Profit Tax" shall be applied.
4. **Has become invalid.**<sup>41</sup>

## Article 28. Calculation of the Amount of the Tax

The final calculation of the actual amount of the tax shall be performed by the taxpayer himself/herself and shall be reflected in the annual income tax returns in accordance with the established procedure.

<sup>39</sup> With addition according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

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

<sup>41</sup> Has become invalid according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text – "Losses incurred from business activity in the reporting year (exceeding of expenses written off according to the established procedure, and other deductions from the gross income) shall not be carried on to the succeeding years."



accrual of a fine for the delay in payments of the income tax commences on May 1 - in respect to the unpaid part of the income tax, in the amounts provided by Article 23 of the Law of the Republic of Armenia "On Taxes".

### **Article 30. Peculiarity of Payment of the Income Tax by Entrepreneurs in the Process of Insolvency**

Pursuant to the legislation regulating the insolvency of private entrepreneurs, the payments of the income tax shall be suspended from the moment when a court decree recognizing the taxpayer as insolvent enters into effect, until the turn comes for the satisfaction of the state budget claims, pursuant to the succession established by the Law for satisfying the creditors claims.

## **Chapter 8. Submission of Annual Tax Returns and Payment of the Amount of the Tax**

### **Article 31. Procedure on Submission of Annual Tax Returns**

1. Individual taxpayers must submit tax returns on their annual income to the Tax Inspectorate bodies at their domicile (registration) with the exception of cases specified in clause 2 of this Article.
2. The taxpayers may be relieved from submitting tax returns, provided in the course of the tax year they received :
  - a) exclusively the income defined in Articles 9, 10 and 11 of this Law;
  - b) **exclusively such incomes, the obligation of tax calculation, withholding and payment for which is tax agent's responsibility, irrespective of the amount of taxable income during tax year;**<sup>42</sup>
  - c) **has become invalid;**<sup>43</sup>
  - d) **gross income not exceeding 250,000 drams within tax year, from which no tax has been withheld by tax agent;**<sup>44</sup>
  - e) individuals that within the tax year have been engaged exclusively in the types of activity taxed in the form of fixed payments, substituting for the income tax, and have not received other taxable income defined by this Law.
3. Individuals shall submit the returns on all types of income received in the course of the tax year, with the exception of the incomes defined by Articles 9, 10 and 11 of this Law **as well as those specified in point "b" of clause 2 of this article**<sup>45</sup>.
4. The income of minors shall be submitted by their parents (custodians).

<sup>42</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

<sup>43</sup> Has become invalid according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001. Initial text – "exclusively such income, withholding of the tax on which has been performed by tax agents pursuant to the terms defined in Article 25 of this Law;"

<sup>44</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

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

countries from the income subject to deduction from the gross income, pursuant to the legislation of the Republic of Armenia. Along with this, the amount of the deducted (credited) tax may not exceed the amount of the tax on the income received in foreign countries which is subject to payment in Armenia, in accordance with the provisions of this Law.

## **PART 2. TAXATION OF A NON-RESIDENT**

### **Chapter 9. Peculiarities of Taxation of a Non-resident**

#### **Article 34. Determination of Taxable Income and Final Amount of the Tax**

1. The taxation of income received from sources in Armenia by individuals non-resident in Armenia shall be performed pursuant to the general procedure established by this Law. For the purposes of this Law the following shall be considered income received from sources in Armenia:
  - a) labor costs in the Republic of Armenia and other payments deemed equal thereto;
  - b) income received from the fulfillment of civil and legal contracts in the Republic of Armenia;
  - c) income derived from business activity carried out by a non-resident on the territory of the Republic of Armenia (the sales of products, goods and provision of services);
  - d) passive income.
2. Income received by a non-resident from the activity of other persons on the territory of the Republic of Armenia, through the investment (provision) of his/her property or other assets shall be considered as passive income, in particular:
  - a) dividends;
  - b) interest;
  - c) royalties;
  - d) income received from the lease of property located in Armenia;
  - e) increase in the value of property resulting from the alienation of property located in Armenia and other assets, and increase in other assets;
  - f) income received from transportation (freight).

#### **Article 35. Determination of Taxable Income**

1. Income paid to the non-resident from the sources in Armenia in connection with foreign economic activity shall not be subject to taxation. For the purposes of the application of this Law, the foreign economic activity shall be defined as the activity implemented exclusively on behalf of a non-resident, pertaining to the importation of goods belonging to the latter into the Republic of Armenia (provided customs documents for the goods exist, and there are no agent-mediators in the activity in question), in the event of which the tax resident of Armenia becomes the proprietor of the goods prior to their crossing of the state border of the Republic of Armenia.

### **Article 38. Responsibilities of Individuals and Tax Agents for the Violation of This Law**

1. The taxpayers and tax agents shall bear responsibility for the violation of this Law in accordance with the procedure established by the legislation of the Republic of Armenia.
2. In case of the failure to withhold (impose) the income tax at the source in accordance with the provisions of this Law, the tax liability (as well as the fines accrued in accordance with the procedure established by the legislation of the Republic of Armenia for the failure to pay the income tax into the state budget within the set terms) shall be borne by the tax agent.
3. The amounts of the income tax not withheld in time (or withheld incompletely) by the tax agent from the income paid to the individuals, according to the provisions of this Law, may be withheld from the individuals pursuant to the procedure established by the legislation of the Republic of Armenia, for not more than the last three months, whereas the amounts withheld (imposed) in excess of the defined amount of taxes shall be credited to future withholdings or shall be refunded within a one month period from the day of revealing the fact - for three calendar years following the day of withholding in excess of the defined amount.
4. **Violation of the requirements of clause 1 of article 37 of this law by organizations and individual entrepreneurs will be punished by penalty by amount of 5000 drams for each data not submitted to the tax entities.**<sup>52</sup>
5. **In case if in the tax report on annual incomes the individual entrepreneur over reports losses, a penalty is levied at the amount of 20 % of the over-reported loss.**<sup>53</sup>

### **Article 39. Departmental Normative Acts on the Application of the Law\***

The departmental normative acts on the application of this Law shall be adopted by the Tax Inspectorate of the Republic of Armenia, in coordination with the Ministry of Finance and Economy of the Republic of Armenia.

### **Article 40. Entry of the Law into Force**

1. This Law shall enter into force from the moment of its publication.
2. The Law of the Republic of Armenia on "Income Tax" dated February 8, 1995, including the amendments, shall be declared void from the moment of the entry of this Law into force.

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<sup>52</sup> With amendment according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" adopted by RA National Assembly on 26.12.2000, in force from 01.01.2001.

<sup>53</sup> With addition according to RA Law "On Amendments and Additions to RA Law "On Income Tax"" in force from 01.01.2002.

\* Excerpt from Article 7 of RA Law "On Amendments and Additions to RA Law "On Income Tax"" in force from 01.01.2002: "The penalty defined in the Article 7 will be in force for over-reported losses in annual tax declarations (returns) submitted to tax authorities after January 1, 2002."