

**LAW OF THE REPUBLIC OF ARMENIA**  
**"ON PERSONAL INCOME TAX"**

**PART 1.**  
**THE GENERAL RULES OF TAXATION**

**CHAPTER 1.**  
**GENERAL PROVISIONS**

**Article 1. Objects regulated by this law**

This law regulates relations between definition and payment of income tax in the Republic of Armenia, defines income tax payers, tax rates, procedures for calculation and payment of income tax.

**Article 2. Definition of income tax**

Income tax is a direct tax that shall be paid by taxpayers (by tax agent in cases specified in the law) to the state budget in the amount and according to procedures as described in this law.

**CHAPTER 2.**

**Article 3. Income tax payers**

1. In the Republic of Armenia (RA) income tax shall be paid by physical entities residents of RA (hereinafter - residents) and non residents of RA (hereinafter - non residents).

2. For purposes of this law the physical entity shall be considered as a resident who during any 12-month period starting or ending in a tax year (from January 1 to December 31) has resident in RA for 183 days or more, or whose vital interests center is in RA, as well as the physical entity on the public service of RA who is temporarily working outside of the territory of RA.

For purposes of this law the term vital interests center shall mean the place where a person's family or economic interests are concentrated.

**Article 4. Taxable objects**

1. Taxable income earned in or outside of the territory of RA shall be considered as a taxable object for a resident.

2. Taxable income earned from Armenian sources shall be considered as a taxable object for a non resident.

**Article 5. Taxable income**

Taxable income is the positive difference of taxpayer's gross income and reductions made pursuant to provisions of this law.

**CHAPTER 3.**  
**GROSS INCOME**

**Article 6.**

Gross income is the total of all incomes, regardless the source, earned by a taxpayer during a tax year.

For purposes of this law the term income shall mean, in particular:

- a) salaries and wages and equal payments;
- b) compensation received for the use of any copyright, license, trade mark, design or model; plan, confidential formula or process, software or database; industrial, technological, commercial and scientific information (hereinafter - royalty).
- c) interest and other benefits from lending (hereinafter - interest)
- d) winnings and bonuses from lotteries and games
- e) prizes from competitions and contests
- f) donated or gifted property and cash
- g) inherited property and cash
- h) dividends from shares
- i) insurance benefits
- j) business earnings
- k) proceeds from alienation of property
- l) fees and other compensation from rent and lease (hereinafter - rent), income from other civil agreements and contracts.

Income received in kinds shall be included (including the case of collection of taxes by a tax agent as per provision of this law) in gross income at the state regulated price or, in case of absence of such price, at free market price estimated according to rules defined by the government of RA.

**Article 7. Non-taxable income**

For purposes of this law non-taxable income are:

- a) state benefits paid according to legislation of RA except allowances for temporary work disability and for care of a sick family member. Unemployment benefits, pregnancy and maternity allowances are also classified as not-taxable income;
- b) compensation paid for injuries and health problems or death occurred during performance of work obligation as described in legislation of RA;
- c) compensation paid according to legislation of RA for job cut;
- d) all types of pensions paid according to pension legislation of RA as well as additional pensions paid for voluntary pension insurance;
- e) compensation paid only once to families of disabled or killed serviceman according to legislation of RA;
- f) death allowances paid only once;
- g) payment to physical entities for donated blood, breast milk, etc.

## **CHAPTER 4. REDUCTION OF GROSS INCOME**

### **Article 8. Reduction of gross income**

Following shall be reduced from gross income:

- a) compensation paid within the norms specified in the legislation of RA except payment for unused vacations in case of quitting a work;
- b) equity interest (from share, stock)
- c) property and cash inherited from or gifted by physical entity
- d) contribution (relief) to physical entities in cash and kinds from NGO-s including benevolent, religious and non-profit organization as well as from trade unions that have state registry according to legislation of RA and are registered at state tax inspectorate of RA.
- e) amounts of relief paid according to decisions of the government of RA, regional and local self-governments as well as paid by foreign countries and intergovernmental international organizations.
- f) value of food security, as well as amounts paid instead of security.
- g) amounts that are described by law as grants.
- h) winnings, bonuses not exceeding ten thousand dram each from lottery and other prize games organized according to conditions and rules specified in legislation of RA.
- i) value of prizes (in cash and kinds) not exceeding ten thousand drams received at competitions and contests.
- j) amount of proceeds from selling their personal property by physical entities with the exception of selling the property as a result of entrepreneurial activity.
- k) the amount of positive balance (difference) of nominal value and purchasing price of privatization certificates bought by physical entities and invested according to procedure as described in law.
- l) scholarship and stipends to graduate students, students of higher educational establishments, vocational and technical schools, seminaries paid by said institutions or by organizations as per points "d" and "e".

### **Article 10. Insurance benefits**

In calculating the taxable income gross income shall be reduced in the amount of insurance benefits that are paid in the cases covered by:

- a) compulsory insurance
- b) voluntary life insurance agreement
- c) voluntary property insurance agreement, in the amount not exceeding the value (the market price of property determined according to procedures as describe in the law of RA) for compensation of the lost property which is insured.

### **Article 11. Income from agricultural produce**

1. In calculating the taxable income for taxpayers involved in agricultural production, their gross income shall be reduced in the amount earned from selling agricultural produce as well as in the amount earned from other activities if the latter does not exceed 10% of the income earned from agricultural and other activities

2. For purposes of this article following products made through biological transformation of animals and plant for final and intermediary consumption shall be considered as agricultural produce:

- wheat and grain
- technical cultivated plants
- fruit, vegetable, tuber, melons and products of covered ground
- field production of animal feed
- other animal feed products
- products from gardens, vin-yards, plants and flowers
- tree, bush, shrub seeds, seeds in fruit
- tree and bush seedlings
- tree and bush plants
- product from cattle breeding
- product from hog production
- product from sheep and goat breeding
- product from poultry
- product from horse, donkey and mule breeding

- product from deer and camel breeding
- product from rabbit, fur animals and game production
- product from fish, honey bee, silk warm production and artificial insemination

3. In the event of impossibility of exact calculation of income from agricultural produce, said calculation shall be done based on figure of net cadastral income, as described in the laws of RA.

4. Privileges defined in this article shall not cover the part of income earned from industrially processed agricultural produce by agricultural industrial enterprises (greenhouse, fur animal farms, livestock production complexes, agrocombines and poultry farms, etc.).

#### **Article 12.**

In calculating the taxable income gross income shall be reduced in the amount of compulsory social insurance contributions to Pension and Employment Fund of RA withheld from a taxpayer. Said reduction, in cases as described in this law, shall be calculated and made by preliminary reducing from gross income the amount of expenditure, as described in this law, related to earning of separate types of income.

#### **Article 13. Charity and other donations**

In calculating the taxable income gross income shall be reduced in the amount, but not exceeding 5% of taxable income calculated according to this law, of donation (in cash and/or kinds) or price of services to organization listed below:

- a) nongovernmental and religious organizations, political parties of RA
- b) condominiums, nonprofit organizations that are established and functioning for exclusively religious, benevolent, scientific, public security experimental, environment protection, literature, culture and education development and propagation, consumers right protection, amateur sport encouragement and organization, human, women, children and old people rights protection purposes.
- c) libraries, museums, public schools, doss-houses, old people houses and children asylums.
- d) hospitals for mentally sick people and tuberculoses

#### **Article 14. Personal reduction from gross income**

1. In calculating the taxable income gross income of taxpayer in a tax year shall be reduced by eight thousand dram for each month the income occurred

2. In a tax year taxpayer's gross income shall be additionally reduced by 20 thousand dram for each month the income occurred if said income is earned by physical entities as follows:

- a) national heroes of RA, heroes of the former SU, people decorated with tree steps of the Glory Order.
- b) invalids of World War II and the individuals who are disabled because of wounds, injuries, contuses during defending RA and/or former SU or during other military service or other diseases occurred during war, invalids among former partisans as well as other categories of invalids equaled by pension law of RA to above described groups.
- c) hero mothers as described in legislation of RA and former SU
- d) participants of World war II as well as participants in other military operation for defending the former SU who have served in regular army, and former partisans.
- e) invalids from birth, invalids of I and II group
- f) individuals who obtained radioactive diseases because of nuclear accidents or participation in liquidation of consequences of such accidents in affected areas, or have worked at nuclear enterprises during said liquidation period

3. gross income of taxpayer in a tax year shall be additionally reduced by eight thousand dram for each month the income occurred if said income is earned by physical entities as follows:

- a) parents and spouse of serviceman died during execution of military obligations or defending RA or the former SU as well as of public employees died during execution of their direct obligations.
- b) servicemen participated in military operation in foreign countries.
- c) invalids from birth - dependents who need permanent care, either of the parents (at their choice), spouse, trustee taking care of a 1st group invalid.
- d) third group invalids who have dependent pension age parents or teenagers.

4. In a tax year the gross income of parents and trustees shall be additionally reduced for each month the income occurred by 1 thousand dram for each child (under 18, and students and pupils under 24) and dependent without source of income.

Said procedure shall be observed till the end of the year when a child becomes 18 and a student/pupil becomes 24, as well as till the death of children or trustees.

Income reduction shall cover the both parents and the trustee.

Reduction of physical entity's gross income shall become effective from the date of the birth of a child or when said entity started to act as a trustee.

5. In the event when there are more than one reductions for a physical entity pursuant to point 2 and 3 of this article gross income shall be reduced by the biggest applicable amount.

#### **Article 15. Expenditure**

1. In calculating the taxable income along with reductions pursuant to this chapter gross income shall also be reduced in the amount of necessary expenditure incurred during entrepreneurial activities or execution of civil agreements (for profit) and certified by documents, based on tax returns of physical entities.

Necessary means the expenditure incurred directly and exclusively for profit.

Requirements to documents certifying said expenditure shall be specified by the government of RA.

2. In calculating the taxable income gross income shall also be reduced by 5% (but not more than 0.5 million dram) of gross income, for expenditure incurred but not documentary certified.

#### **Article 16. Procedure for reduction**

Reductions from gross income subject to this law shall be made by physical entities and shall be reflected in annual income statements except cases as described in article 17 of this law.

#### **Article 17. Reductions made by tax agent**

When paying income to a physical entity said income shall be reduced by tax agent:

- a) in the amount of income (as described in articles 9, 10, 11 of this law ) that the agent pays to a physical entity.
- b) in the amount of reduction subject to article 14 of this law, upon receipt of documents certifying the rights for such reduction, based on a certificate issued by a tax agency.
- c) in the amount of compulsory payments subject to article 12 of this law if the obligation for calculating, withholding (collecting) of such payments according to law are upon the tax agent who pays income to the physical entity.

### **CHAPTER 5. INCOME TAX RATE**

#### **Article 18. Income tax rate**

1. In a tax year income tax from taxable income shall be paid (collected) at following rates:

<b>Yearly Taxable Income (dram)</b>	<b>Tax Rate</b>
Up to 120 000	15% of taxable income
From 120 000 to 320 000 inc.	18 000 plus 25% of the amount exceeding 120 000 dram
More than 320000	68 000 plus 30% of the amount exceeding 320 000 dram

2. From the amounts that are added according to laws of RA to salaries and wages for high mountainous and other factors as well as for long work experience the tax shall be collected separately at the rate of 15%.

#### **Article 19. Presumptive payment of income tax**

For certain taxpayers and types of activity the law may define presumptive payments instead of income tax.

### **CHAPTER 6. THE PROCEDURE OF CALCULATION AND PAYMENT OF THE TAX BY A TAX AGENT**

#### **Article 20. Withholding of the tax by tax agent**

1. When paying income to physical entities the tax shall be withheld (collected) by tax agent from salaries (wages) and other equal (similar) payments as well as in all other cases other than in cases specified in point 2 of this article.

2. Tax agent shall not withhold (collect) taxes in cases:

- a) if the income to be paid is earned by entrepreneurial activity (delivery of goods and services, performance of work) and there is a written civil agreement signed with a tax agent which (agreement) contains taxpayer's TIN, passport data, permanent address in RA and the number of state registry for entrepreneur activity.
- b) when a citizen of RA that earns income, signs according to laws of RA a written agreement (particularly- trade, commission, contract, etc.) with a tax agent indicating passport data and permanent (registration) address in RA, except cases of agreements for income as specified in points "b", "c", "d", "e", "f" of article 6 of this law.
- c) as described in international agreements of RA.

#### **Article 21. Calculation by tax agent of the tax from income**

The tax from income paid to physical entity shall be withheld (collected) by tax agent at the following rates:

- a) 15% of the paid income (with no consideration to reductions and expenditure described in this law) in cases of not signing written agreements according to points "a" and "b" of article 20 of this law or absence of any data as required above.
- b) in all other cases at the rates specified in article 18 from taxable income calculated according to this law.

Tax shall be withheld (collected) at each payment. Along with that in case of each next payment a progressive calculation of taxable income and tax shall be made based on the total amount paid at a given place of payment to a physical entity by a tax agent during current tax year.

#### **Article 22. Peculiarities of taxation of foreign citizens and people without citizenship**

When paying income to foreign citizens and people without citizenship the tax shall be withheld (collected) by a tax agent at the source of income (except cases described in point "a" of article 20) at following rates:

<b>Type of Income</b>	<b>Rate (%)</b>
Equity interest, interest	15
Insurance benefits and freight charges	5
Royalty, rent, gains from property price increases and other passive revenues (other than freight charges), as well as other (including enterprise income) incomes from Armenian sources	15

The tax shall be paid from the total amount of income without any reductions specified in this law. Income tax from salaries and wages and similar payments shall be calculated and withheld (collected) at the rates specified in article 18 without personal reductions described in this law.

Amounts withheld (collected) by a tax agent at said rates shall be considered for foreign citizens and people without citizenship in Armenia as final income tax, except cases as follows:

- a) if he/she is a resident
- b) if he/she has been involved in entrepreneur activities in Armenia on condition subject to point "2-a" of article 20 of this law.

In said cases foreign citizens and people without citizenship shall ask a tax agency for recalculation. For this an income statement made according to law shall be submitted for final calculation of the tax (particularly for netting up the amount withheld at the source as well as for consideration of reductions pursuant to this law).

#### **Article 23. Payment of the tax amounts withheld by tax agent to the budget.**

Following are the term for payment of the tax amounts withheld (collected) by tax agent to the budget:

- a) taxes withheld (collected) from salaries and wages and equal income by employers shall be transferred after the end of each month but not later than the date defined for receipt of salary funds in the banks.
- b) enterprises, organizations, etc. paying salaries/wages from cash proceeds from sales of goods (work, services) shall transfer (pay) to the bank the amount of calculated (withheld) tax next day of the date when salaries (and other payments) are actually paid.
- c) the tax withheld (collected) from other types of income as well as from income in kinds shall be paid within 15 days after said income is paid.

#### **Article 24. Issuing certificates by tax agents**

Tax agents shall be obliged to, upon request of a physical entity, issue certificates on calculated and paid income, made reductions and amount of withheld taxes for submitting them to tax departments as well as to other tax agents.

#### **Article 25. Calculation of the amount of tax from income paid by several tax agents.**

During a tax year in the event of change of the tax agent every next tax agent upon request of a tax payer shall make progressive calculation of the sum of taxable income and taxes based on the total amount of paid income, reductions and withheld taxes of a taxpayer from the beginning of the year made by previous tax agent(s) during given year if they have also made taxation in the similar way. Tax certificates as described in point "b" of article 16 and article 24 issued by tax department or former tax agent shall be taken as a basis for such progressive calculation. The form of said certificates and the filling procedure shall be defined by STA of RA.

### **CHAPTER 7. THE PROCEDURE FOR CALCULATION AND PAYMENT OF THE TAX FROM INCOME EARNED FROM ENTREPRENEUR ACTIVITIES**

#### **Article 26. Calculation of income from entrepreneur activities**

In calculation of income from entrepreneur activities the "according to payment (cash)" method of registration shall be applied.

#### **Article 27. Registration of expenditure**

1. Following, in particular, shall be considered as expenditure
  - a) material expenses
  - b) depreciation
  - c) rental payments
  - d) insurance payments
  - e) not reimbursed (not netted out) taxes, duties and other compulsory payments.
  - f) interest paid (for loans and other borrowings)
  - g) payments for guarantees, LC -s, and other bank services
  - h) publicity expenses
  - i) representative expenses
  - j) court expenses
  - k) business trips
  - l) compensation of losses
  - m) penalty charges, fines and other sanctions except expenditure that shall not be deducted according to provisions of this law.
  - n) expenses for audit, legal, consulting, information and management services
  - o) expenses for factoring, authorization and other operations (transactions)

p) expenditure identified in the accounting year that have occurred during three years prior to current year.

2. Taxpayer's investment in other entity's equity shall not be considered as expenditure.

3. In case of entrepreneur activity for calculation of depreciation costs and other expenditure, expenditure not reducible from gross income and other types of expenditure as well as for reduction of expenditure, provisions of the law of RA on "Profit Tax" for legal entities shall be applied.

4. Losses (expenditure and reductions exceeding gross income) incurred during an accounting year from entrepreneurial activities shall not be transferred to following years.

#### **Article 28. Calculation of the tax.**

Final calculation of the actual sum of the tax shall be done by taxpayer and shall be reflected in annual income statement (declaration).

#### **Article 29. Income tax prepayment**

1. A taxpayer earning income during a year from entrepreneurial activities shall make income tax prepayments according to provision of this article.

2. Prepayments shall be made quarterly, not later than on the 15-th day (or on the first working day following that date if said day is a holiday) of the last month of the quarter, in the amount of one-sixth of the actual income tax of the previous year. In case of failure of making prepayment on said dates and in other cases specified in the law tax inspectorate shall make claims from the prepayment amount and calculated penalties pursuant to provisions of law.

3. A new taxpayer, upon a prior notice to tax agency, may not make said prepayments until 15-th of June of the following year.

4. The tax payer that incurred losses during the previous year (or had income not more than 50 thousand dram) after making income statement may not make prepayment. Before calculation of actual income tax for the previous year the taxpayer shall make first income tax prepayment (before March 15) in the amount not less than the last prepayment of the previous year.

5. Should a taxpayer project less taxable income for a current year than with the previous year said taxpayer shall define the quarterly amount of prepayment by himself. Should the total of yearly prepayments for given year be less than four-sixth of the actual income tax of that year the taxpayer shall be penalized for the difference of one-sixth of actual income tax and actual prepayment for given quarter, from the date of prepayment till the day when tax agency finds out the amount of actual income tax (income statement is made).

6. After the end of an accounting year a taxpayer based on calculated taxable income shall calculate the income tax by netting up to said amount the prepayments made for given accounting year.

7. If the total of income tax for the accounting year is less than the total of prepayments for the same year then the difference shall be returned pursuant to article 33 of the Tax Law of RA. In such case calculation of penalties for prepayments shall be stopped on the day when income statement is made to tax agency, but not later than May 1. Penalties calculated for prepayment shall not be recalculated or returned.

8. If the total of prepayments is less than the income tax for the given accounting year then recalculation shall be made only for income tax and the taxpayer shall be obliged to pay the difference to the state budget. In such case calculation of penalties for prepayments shall be stopped on the day when income statement is made to tax agency. For delay of payment of the amount of income tax penalties for unpaid amount shall become effective from the 1-st of May at the rate as specified in article 23 of the Tax Law of RA.

#### **Article 30. Peculiarities of income tax payment by private entrepreneurs filed for insolvency**

According to laws regulating insolvency of private entrepreneurs income tax payments shall be stopped from the effectiveness date of the court decision on insolvency and payments to the budget - among other creditors - shall be made according to the procedure (turn) as described in the law.

### **CHAPTER 8. ANNUAL INCOME STATEMENTS AND PAYMENT OF TAXES**

#### **Article 31. The procedure of making annual income statements (declarations)**

1. Physical entities (taxpayers) shall be obliged to declare their annual income at a tax department of their residence or where they are registered except cases as described in point 2 of this article.

2. No income statement is necessary:

a) when a physical entity during a year have earned income from exclusively one tax agent regardless the amount of taxable income and from which income tax has been withheld.

b) for a physical entity who during a tax year has earned exclusively such income from which tax has been withheld by a tax agent according to article 25 of this law.

c) for a physical entity that during a tax year has earned exclusively such income from which tax has been withheld by a tax agent and the total taxable income of which has not exceeded 120 000 dram.

d) for a physical entity that during a tax year has been involved in activities that are exclusively subject to presumptive tax and has not earned other income subject to declaration according to this law.

3. Income of teenagers shall be declared by their parents (trustees) and shall be included in their income.

4. Physical entities (taxpayers) shall declare their annual income not later than the 1-st of March of the following year.

5. If the income is paid to a physical entity by foreign diplomatic agencies or consulates, or by foreign intergovernmental organizations and when no tax is withheld at the source according to intergovernmental agreements, declaration of said income shall be made according to the decisions the government of RA.

6. Non filing by tax payer does not assume a waiver from tax and other obligations pursuant to the laws of RA.

7. Physical entities shall have the right to make corrections in their declarations within a month after the date of declaration.

#### **Article 32. The procedure for declaration of annual income and payment**

1. A taxpayer shall be obliged to pay income tax to the budget not later than the 1-th of May of the year following the given tax year.

2. If during a tax year according to this law taxes from part of earned income are withheld (collected) by tax agents at the source then during a tax year the amounts of withheld taxes shall be considered (netted up) for final calculations.

3. According to the results of annual declarations excess taxes paid to the budget by a taxpayer shall be returned according to article 33 of the Tax Law of RA.

#### **Article 33. Avoidance of double taxation**

Income earned out of the borders of Armenia by resident taxpayers of Armenia shall be included into total annual income declared in Armenia and shall be taken into account during tax calculation. Income tax subject to payment in Armenia shall be reduced in the amount of tax paid in foreign country according to their laws except the amount of tax collected from income in foreign countries that are subject to reduction from gross income according to the laws of RA. The amount of reducible (netted out) tax shall not exceed the income earned in a foreign country, based on the tax amount to be paid in Armenia according to the provisions of this law.

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

### **CHAPTER 9. PECULIARITIES OF TAXATION OF A NON-RESIDENT**

#### **Article 34. Calculation of final income and tax**

1. Taxation of income earned from Armenian sources by non-residents in Armenia shall be made according to procedure as described in this law. For purposes of this law following shall be considered as income from Armenian sources:

- a) salaries and wages and equal payments paid in RA.
- b) income from execution of civil agreements in RA.
- c) income earned by non resident from entrepreneurial activities (delivery of goods and services, production) in RA.
- d) passive income.

2. Income earned from exclusively other entities on the territory of RA for investment of property and /or other assets by non resident shall be considered as passive income, particularly:

- a) equity interest
- b) interest
- c) royalty
- d) income from rental of property located in the territory of Armenia
- e) gains from change of price of alienated property and other assets located in the territory of RA.
- f) freight charges

#### **Article 35. Calculation of taxable income**

Income from foreign economic activities paid from Armenian sources to non-resident shall not be taxed. For purposes of this law import of goods belonging to non resident and made exclusively on behalf of a non resident to Armenia (in case of availability of customs documents and absence of intermediaries for said transaction) when an Armenian tax resident become the owner of said goods before they cross the Armenian border shall be considered as foreign economic activity.

#### **Article 36. Certificate for withheld tax**

Upon request of a non-resident tax agencies shall issue a certificate on the amount of taxes withheld from Armenian sources in accordance with the form and procedure as defined by STA of RA.

## **PART 3 CONCLUDING PROVISIONS**

### **CHAPTER 10. CONCLUDING PROVISIONS**

**Article 37. Information**

1. Tax agents shall be obliged to deliver written information (in the form specified by STA of RA) on income paid to physical entities, their permanent (registration) addresses and taxes withheld from said income during the quarter to their regional tax agency each quarter not later than on the 1-st day of the second month of the following quarter. Said information then shall be readdressed to regional tax agencies where above physical entities reside or are registered.

2. In case of liquidation (cessation of activities) of a tax agent information pursuant to article 1. shall be delivered to the tax agency by the tax agent within 5 days from the day of application to the state registry on resolution (cessation of activities).

**Article 38. Responsibilities of physical entities and tax agents for violation of this law**

1. For violation of this law taxpayers and tax agents shall bear responsibility according to effective legislation of RA.

2. Tax agent not withholding taxes at the source shall bear said tax obligation (including penalties calculated according to law of RA for delay of paying income tax to the budget) upon himself.

**Article 39. Agency regulations for implementation of this law**

Agency regulations for implementation of this law shall be adopted by STI of RA and agreed with the MFE of RA.

**Article 40. Effectiveness**

This law shall become effective on the 1-st of January, 1998.

From the effectiveness date of this law the law of the RA on "Income tax" of February 8, 1995 along with further amendments and changes shall become ineffective.

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December 30, 1997