

# LAW OF THE REPUBLIC OF ARMENIA

## "ON PROFIT TAX"

### SECTION I. GENERAL PRINCIPLES OF TAXATION

#### CHAPTER 1. GENERAL PROVISIONS

##### **Article 1. Scope of the Law**

This Law regulates principles of estimation and payment of profit tax in Armenia, by defining the sphere of taxpayers, profit tax rates, norms of estimation and payment.

##### **Article 2. Concept of Profit Tax**

Profit tax is a direct tax to be paid to the budget by the taxpayers in accordance with this Law.

##### **Article 3. General Rules of Profit Tax Payment**

1. Accounting of profit tax shall be carried out in accordance with the laws governing financial accounting and reports, unless envisaged otherwise in this Law.

2. Within the period of submitting the profit tax report, taxpayers shall in writing inform Tax Inspectorate on the principles of accounting and financial reporting chosen by them as well as about any changes, provided the right of choice is granted to them by Law.

3. The results of revaluation of fixed and other assets shall not be accounted for profit tax payment, unless envisaged otherwise by this Law.

#### CHAPTER 2. TAX PAYERS AND OBJECT OF TAXATION

##### **Article 4. Profit Tax Payers**

1. Profit taxpayers in Armenia shall be residents (hereinafter residents) and non-residents of Armenia, except budgetary organizations and the Central Bank of Armenia (CBA).

2. For the purposes of this law:

- a) Residents of Armenia are the legal persons and enterprises without legal person status created in Armenia (state registered).
- b) Non-residents of Armenia are the legal persons and enterprises without legal person status created in other countries as well as international organizations, and legal persons or enterprises without legal person status created by them outside Armenia.

##### **Article 5. Object of Taxation**

1. Object of taxation for residents shall be the taxable profit derived in Armenia and outside.

2. Object of taxation for non-residents shall be taxable profit derived from Armenian sources (Article 53 of this Law).

##### **Article 6. Taxed Profit**

Taxed profit is the difference between gross income of taxpayer and positive deductions, envisaged by this Law.

#### CHAPTER 3. GROSS INCOME

##### **Article 7. Gross Income**

1. Gross income is the total of income derived by the taxpayer within the reporting year, irrespective of the source.

For the purposes of this Law:

- a) Income is the in-flow, or growth of assets, or reduction of liabilities within the reporting year, which leads to the growth of taxpayer's ownership capital;
  - b) Ownership capital is the difference between the assets and liabilities of taxpayer;
  - c) Assets are any capital belonging to the tax payer by a proprietary right, including property (tangible assets), proprietary rights and personal non-property rights related with proprietary rights (intangible assets), foreign exchange, securities, indebtedness, and other property;
  - d) Liability is the current debt of taxpayer (loan, indebtedness, tax liability, etc.);
2. The following is considered as income:
- a) Proceeds on realization of goods and production (hereafter referred as goods);
  - b) Proceeds on provision of services;
  - c) Proceeds on realization of fixed and other assets;
  - d) Interest and other indemnity received against loans (hereafter interest);
  - f) Rental and other indemnity received against lease (hereafter rental);

- g) Payment received for any creation of art, or scientific work, or copy right (including movie, TV, or radio broadcast), patent, trade mark, project, or model, plan, know-how, software, the right to use or operate industrial, trade, scientific equipment, information disclosed on industrial, technical, organizational, trade, scientific practices (hereafter royalty);
  - h) Dividends;
  - i) Insurance payments;
  - j) Income derived on financing debts, or trade operations, factoring, or other activities;
  - k) Income on futures, options, or other derivatives;
  - l) Income from rebate or remission of liabilities;
  - m) Income from reimbursement of losses;
  - n) Income from penalties and fines;
  - o) Income on activities recognized invalid;
  - p) Amounts of indebtedness invalidated due to limitation of period;
  - q) The amounts to cover written-off indebtedness, and required reserves for indebtedness which is not written off;
  - r) Positive balance on revaluation of foreign exchange;
  - s) Income not shown in previous three years, or excessive reductions in previous three years;
  - t) Fee on banking guarantees, or accepts;
  - u) Fees for trust activity, management of securities and investments of third persons, broker and financial agent activities;
  - v) Fee for issue, rebate transfer, or servicing notes, checks, payment orders, credit cards, etc.;
  - w) Insurance payments;
  - x) Commission payments, received from reinsurance agreements;
  - z) Payments returned from reserve funds on risk insurance;
3. The period of limitation of period for creditor indebtedness shall start from the moment of filing the claim, however not later than in 61 days after the beginning of the transaction.

#### **Article 8. Elements Not Considered as Income**

Investments of the participants (shareholders, stockholders, members) in the ownership capital, positive difference between allocation price and face value of shares, capital combined for joint activity shall not be considered income.

Positive result of reevaluation of assets and of liabilities in exchange and foreign exchange shall not be considered income.

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

#### **Article 9. Reductions of Gross Income**

When determining gross income it is allowed to make reductions envisaged in this Chapter (expenses, losses and other reductions). The same amounts may be reduced only once.

#### **Article 10. Expenses**

1. Gross income shall be reduced to the amount of necessary formalized expenses incurred on deriving it.

For the purposes of this Law:

- a) Expenses are the outflows, or decrease of assets, or growth of liabilities within the reporting year which leads to a decrease of ownership capital;
- b) Expenses deemed necessary exclusively and directly for production of goods, provision of services, progress in market and/or realization of goods and services, provision of consolatory and legal services, accompanying, elimination of shortcomings found during operation and guarantee control, start-up of production, maintenance of property, training of staff.

The Government shall define the norms of formalization of expenditures.

2. The following shall be considered as expenses:

- a) Material expenses;
- b) Labor reimbursement;
- c) Pension, unemployment, social security payments;
- d) Amortization allocations;
- e) Insurance payments;
- f) Taxes, duties, other obligatory payments which are not subject to compensation (or netting);
- g) Interest on loans, or other borrowings;
- h) Fee for guarantees, letters of guarantee, LCs, and other banking services
- i) Advertisement expenses;
- j) Representative expenses;
- k) Business trip expenses;
- l) Court expenses;
- m) Reimbursement against incurred losses;
- n) Fines and penalties and other property sanctions except cases envisaged by article 16(1)(g) of this Law;
- o) Expenses on staff recruitment;

- p) Auditing, legal, other consolatory, information and administrative expenses;
- q) Factoring, trust expenses;
- r) Negative balance of foreign exchange revaluation;
- s) Expenses within the previous three years found to be shown in a lesser amount.

#### **Article 11. Elements Not Considered As Expenses**

The following shall not be considered expenses:

- a) Distribution of taxpayer's ownership capital among the participants as shares or otherwise;
- b) Investments of taxpayer in the statutory capital of a third person;
- c) Own shares repurchased by the taxpayer, or negative balance between realization price and face value of shares;
- d) Negative result of reevaluation of assets and of liabilities in exchange and foreign exchange.

#### **Article 12. Amortization Deductions**

1. Gross income shall be reduced to the extent of amortization of fixed assets and intangible assets in circulation in accordance with terms as set forth in clauses 2,3 or 4 of this article.

2. Amortization deductions shall be estimated on the basis of following age terms:

- a) 20 years - buildings, constructions, and transfer devices;
- b) 10 years - hotels, resort hotels, constructions;
- c) 3 years - robot equipment, calculating devices, computers, assembly lines;
- d) 5 years - other fixed assets, including investments for growing cattle, plants, and land.

3. Amortization period of intangible assets shall be decided by the taxpayer on the basis of possible period of effective use. If it is impossible to determine the period, it shall be set as 10 years, however not more than the period of taxpayer's activity.

4. The taxpayer may chose another period for amortization, however it shall not be less than the periods defined in this Article for fixed assets.

5. The annual value of amortization deductions shall be estimated as relationship between initial cost of fixed assets and period of amortization for the given group of fixed assets provided in clauses 2, 3 and 4 of this article

#### **Article 13. Repair and Modernization Expenses**

Gross income shall be reduced to the following extent:

- a) Expenses on repair and modernization of fixed assets, but not more than 10% of balance sheet value. Expenses on repair and amortization, which are not subject to reduction by virtue of this Clause, shall be added to the initial cost of fixed assets, and may be subject to amortization in accordance with Article 12;
- b) Expenses on repair and modernization of leased fixed assets, but not more than 10% of the cost defined in the lease agreement. Expenses on repair and amortization, which are not subject to reduction by virtue of this Clause, shall be added to the initial cost of fixed assets, and may be subject to amortization in accordance with Article 12.

After termination of the lease agreement or actual termination of the relation non-used leftover is totally reduced from the gross income of the lesser.

#### **Article 14. Exploration of Minerals for Production, Geological Research, Drafting and Research Expenses**

Gross income shall be reduced to the extent of expenses incurred for exploration of minerals for production, geological research, drafting and research, in accordance with procedure defined in Article 12, Item 3.

#### **Article 15. Scientific Research, Expertise Expenses**

Gross income shall be reduced to the total extent of expenses incurred for scientific research and expertise within the current year. The Government of Armenia shall define the list of scientific research and expertise works.

#### **Article 16. Expenses Not Subject To Reduction from Gross Income**

1. The following expenses shall not be reduced:

- a) Payments for pollution, exceeding the rates established by the Government;
- b) Expenses on advertisement, training of staff outside Armenia, exceeding the rates established by the Government;
- c) Expenses on special food and uniforms of the employees, exceeding the rates established by the Government;
- d) Expenses on foreign trips, and per diem for local trips, exceeding the rates established by the Government;
- e) Representative expenses exceeding the rates established by the Government;
- f) Expenses on recreation institutions, old age homes, nurseries, leisure and sport, child care, kindergartens, handicapped rehabilitation institutions, cultural institutions exceeding the rates established by the Government, including amortization deductions and repair expenses;
- g) Fines paid to state and community budget, except payments for nonfulfilling civil liabilities;
- h) Assets provided on a charge free basis, excused liabilities, except cases defined in Article 23;
- i) Allocations to unions and other non-state organizations;

- j) Expenses on maintenance of servicing units (providing premises on a free of charge basis, paying fees for utilities);
  - h) Expenses for services not connected with production.
2. If special norms are not set for the expenses defined in Items a-i, gross income shall be reduced to the extent of total expenses incurred.

#### **Article 17. Invalidated Transactions**

If a transaction is invalidated, gross income shall be reduced to the extent of funds returned to the other party of a transaction.

#### **Article 18. Funds Used To Cover Bad Debts, And Creditor Indebtedness with Limitation Period Expired.**

1. Gross income shall be reduced to the extent of allocations to the reserve fund against bad debts; if the debt is written off - within the amounts exceeding allocations to the reserve fund.
2. Gross income shall be reduced to the extent of amounts used to cover creditor indebtedness with limitation period expired.

#### **Article 19. Non-Formalized Expenses**

1. If expenses were not formalized, gross income may be reduced to the extent of per diem norms established by the Government.
2. In addition to expenses defined in Item 1, gross income may be reduced within 1% of gross income, but not more than dram 1 million, against incurred but non-formalized expenses.

#### **Article 20. Income Shown In Excess (Reduction Not Shown In Full) During The Previous Years**

Gross income shall be reduced to the extent of the income shown in excess during previous three years, or reduction not shown in full.

#### **Article 21. Losses**

1. Gross income shall be reduced to the extent of real losses (ordinary losses) not exceeding the rates established by the Government for property losses, incurred in the current year.
2. If the losses exceed the rates established by the Government, gross income may be reduced to the full extent in the following cases:
  - a) If the losses were compensated totally, or in parts by the person who caused the losses -within the year of total or in parts compensation;
  - b) If the person who caused the loss is not found and criminal proceedings are suspended - within the current year;
  - c) If the person is acquitted or accused - from the effective moment of the award.

#### **Article 22. Incidental Losses**

1. Gross income shall be reduced within the amounts of incidental losses, within the year when the losses took place or were revealed.
2. Incidental losses are the formalized real losses, destruction, prejudice, or qualitative deterioration of taxpayer's property occurring from fire, flood, earthquake or other disaster, hijacking, war, military rebel, etc.

#### **Article 23. Charity and Other Free of Charge Allocations**

Gross income shall be reduced to the following extent:

- a) Within the amount of allocations (capital and/or goods), or works performed, or services provided to the organizations specified in Clauses "a", "b", and "c", of Item 1, Article 37, as well as mental institutions, but not more than 5% of taxed income estimated in accordance with this Law;
- b) Within the amount of allocations, or works performed, or services provided to the organizations specified in Clauses "a", "b", and "c", of Item 1, Article 37 from taxed profit of legal persons fully belonging to these organizations.

#### **Article 24. Grants**

Gross income shall be reduced within the amount of grants, received in accordance with the Law.

#### **Article 25. Transfer of Damage from Taxpayer's Activities**

1. Gross income shall be reduced within the amount of damage incurred by the taxpayer during the previous years. Damage from taxpayer's activity is the exceeding of reductions from gross income.
2. Damage from taxpayer's activity shall be transferred to the following years' gross income without limitation of the period.

#### **Article 26. Dividends**

Gross income shall be reduced to the extent of the dividends received by the taxpayer, except in cases provided by Item 2, Article 56.

Dividends are the income received from participation in statutory fund of other legal person, or enterprise without legal person status.

**Article 27. Realization of Repurchased Participation**

Gross income shall be reduced to the extent of positive balance between the price of realization of own shares repurchased by the taxpayer, and balance sheet value, if the shares were repurchased by virtue of Law.

**Article 28. Property Received From a Liquidated Person**

Gross income shall be reduced within the amount of positive balance between residual property received from liquidated legal person against the shares of the taxpayer, and balance sheet value of the shares.

**Article 29. Difference Between Face Value And Acquisition Price of Privatization Vouchers.**

Gross income shall be reduced to the extent of difference between the face value of privatization vouchers set by legislation and the acquisition price paid by the taxpayer.

**Article 30. Reduction of Banks' Gross Income**

In addition to reductions defined in Articles 10-29 of this Law, gross income of the banks shall be reduced:

- a) Within the amounts of loans, investment securities, debtor debt, loan loss provisioning, within the rates established by the Central Bank and the agency authorized by the Government;
- b) Within the interest rate on deposits;
- c) Interest accrued on promissory notes, notarized depository certificates;
- d) Fees paid against services and correspondent relations;
- e) Collection of cash, checks, other payment instruments;
- f) Fees to clearing houses;
- g) Expenses on issuing, accepting and maintaining cash cards, and traveler checks;
- h) Expenses on issuing shares, notes, certificates;
- i) Losses incurred because of forged cash and payment documents.

**Article 31. Reduction of Gross Income of Insurance Companies**

In addition to reductions defined in Articles 10-29 gross income of insurance companies shall be reduced to the following extent:

- a) Payment of insurance;
- b) Payments by virtue of insurance agreements;
- c) Security allocations;
- d) Deductions to reserve funds;
- e) Commission payments to agents and brokers;
- f) Payments for calculation services;
- g) Other expenses connected with issuing, accepting and maintaining plastic cards, travelers checks related to insurance activities.

**Article 32. Execution of Expenses Reduction from Gross Income**

1. Reduction of expenses directly related to the production of goods and realization of services (material, labor reimbursement, social insurance, etc.) from gross income shall be made after realization of goods and services.

2. Reduction of gross income of taxpayers performing trade shall be done after realization of goods.

3. Reduction of balance sheet value of the assets not indicated in Items 1-2 of present Article (fixed and other assets) shall be done after their realization.

4. Reduction of administrative expenses (salary of administration, social security, material and transport expense on business trips, maintenance and operation of fixed assets, representative, judicial, auditing, consolatory, information services, training of staff, etc.), expenses connected with realization of goods and services (packing, maintenance, loading, transportation, advertisement, marketing, etc.), other non-productive expenses (inventions, streamlining, research, expertise, etc.) shall be done within the current year.

5. Reduction of expenses connected with the taxpayer's financial activity (interest on loans and other borrowings, expenses from revaluation of foreign exchange, interest paid on long-term lease) shall be done within the current year.

6. Reduction of the income shown excessively during the previous years shall be done within the when it was revealed.

## CHAPTER 5. PROFIT TAX RATES

**Article 33. Profit Tax Rates for Residents**

1. Interest rate shall be estimated through the following Table;

Taxable Profit	Tax Rate
Taxable profit less than dram 7 million	15% of taxed profit
Taxable income over dram 7 million	1,05 million dram plus 25% of the amount exceeding dram 7 million

2. Profit tax from the profit derived from organization and the carrying out lotteries and gaining games (including carried out in casino) shall be paid at the rate of 70%, except the cases defined in Article 34.

#### **Article 34. Profit Tax Fixed Payments**

For certain taxpayers and groups of taxpayers presumptive tax is envisaged instead of profit tax.

#### **Article 35. Taxation of Profit Tax at Different Rates**

A taxpayer that performs different kinds of activities subject to different rates of profit tax (including presumptive tax) shall pay profit tax at different rates, as envisaged by the Law. For this purpose, the taxpayer shall keep separate accounting for each kind of activity.

### **CHAPTER 6. PROFIT TAX PRIVILEGES**

#### **Article 36. Profit from Sale of Agricultural Production**

1. Taxpayers with respect to agricultural production shall be exempt from profit tax to the extent of income from realization of agricultural production, and income derived from the realization of fixed assets and other assets, if the income does not exceed 10% of gross income.

2. For the purposes of this article, the following shall be considered as agricultural production:

- grain crops;
- forage crops;
- plants and vegetables;
- other food of vegetable origin;
- fruits and berries;
- trees and seeds;
- cattle;
- poultry;
- fish production;

3. If it is impossible to make correct accounting of the income derived from realization of agricultural production, it shall be estimated on the basis of presumptive rates, fixed by legislation.

4. Privileges defined in the present Article shall not extend to the agricultural enterprises of industrial character (greenhouse and animal breeding industries, cattle-breeding complexes, agricultural factories, poultry-keeping factories, etc.). Differentiation between agricultural farms and agricultural enterprises of industrial character is based on the RA legislation.

#### **Article 37. Public, Religious, Non-Profit Organizations and Political Parties**

1. The following entities registered in Tax Administration shall be exempt from profit tax:

- a) Public, religious organizations and political parties;
- b) Other non-profit organizations which were formed exclusively for religious, charity, scientific, public security, environment protection, literature, leisure and education, protection of consumer rights, amateur sports, protection of human, feminine, children, and old age rights, if the profit is not divided between the participants or other persons and is used exclusively for the purposes included in the charter;
- c) Libraries, museums, schools, dormitories, boarding schools, if any part of their income is not related with third persons and is used solely for the statutory purposes.

#### **Article 38. Allowance to Disabled**

Gross income of a taxpayer shall be reduced by 150% of wages and other payments to every disabled person employed.

#### **Article 39. Enterprises with Foreign Investments**

1. If the share of a foreign investor in the statutory capital of a resident is at least dram 500 million, after January 1, 1998, the following reductions are made:

- a) 100% of profit tax within the next two years after the investment is made;
- b) 50% of profit tax starting from the third year and until the tenth year after the investment.

If the taxpayer is liquidated within the period indicated in this Article, the profit tax is estimated in total amount for the whole period of activity.

2. Privileges on profit tax granted to the enterprises with foreign investment, and banks prior to January 1, 1988 shall remain in force until the expiration of validity period.

#### **Article 40. Prolongation of Profit Tax Payment Period**

The period of profit tax payment for the production, transportation, and realization of natural gas, thermal energy, potable and irrigation water shall be prolonged till payment is made against the realization.

#### **Article 41. Profit Tax Privileges Defined in Other Laws**

The legislation may define exemption from profit tax, and other privileges.

## **CHAPTER 7. TAX ACCOUNTING**

### **Article 42. Accounting on Accrued Basis**

Income and expenses shall be accounted on accrued basis.

When the accounting is done on accrued basis, income and losses are accounted from the moment of acquisition of a right, or recognition, irrespective of actual performance.

### **Article 43. Special Rules For Accounting on Accrued Basis**

When accounting income on an accrued basis, the taxpayer shall take into account the following special rules:

- a) The right on the income is deemed acquired when the corresponding amount is due to unqualified payment to the taxpayer, or the taxpayer fulfilled operational, or contractual liabilities, even if the period of fulfillment of the liability was prolonged, or the payment is made in installments;
- b) If the taxpayer performed works (provided services), the right is deemed acquired from the moment of finishing the work (services).

## **CHAPTER 8. ACCOUNTING PROCEDURE AND TERMS OF PAYMENT**

### **Article 44. Estimation of Profit Tax Amount**

1. Taxpayer shall estimate the profit tax amount on annual basis, in accordance with the rates defined in Chapter 5 of this Law.

2. In the cases defined in Article 22 of the Law "On Taxes", Tax Inspectorate shall exercise the rights provided in Part 2 of the Article.

### **Article 45. Centralized Payment of Profit Tax**

The Government of Armenia may define the list of enterprises which may account, pay, and report on a profit tax in a centralized manner.

### **Article 46. Submission of Profit tax Estimates and Financial Reporting**

1. Profit taxpayers shall submit tax estimates, and financial reports to local Tax Inspectorate on annual basis, prior to April 15 of the next year.

2. The period for submission of tax estimates and financial reporting shall include the day indicated in this Article, and if this day is a non-working, the period is extended until the next working day.

### **Article 47. Advance Payment of Profit Tax**

1. Taxpayer shall pay advance payments during the year, in accordance with the procedure defined in this Article.

2. Advance payment shall be made on a monthly basis, within 1/16-th of the actual profit tax amount paid in the previous year, prior to 25-th day of the current month.

If the advanced payment is not made within the defined period, Tax Inspectorate shall fill claim on the outstanding amount and fines, in accordance with legislation.

3. A newly established taxpayer is exempt from profit tax advance payments till April 25 of the following year, notifying Tax Inspectorate in advance.

4. A taxpayer is exempt from advance profit tax payments after submission of tax estimates, if he did not have taxable profit within the previous year, or if taxable profit did not exceed dram 500,000.

5. Until the actual amount of profit tax within the previous year is estimated, the taxpayer shall make monthly advance payments in an amount not less than in the preceding month.

6. If the gross profit of the current year is expected to be less than in the previous year, the taxpayer shall decide the amount of advance payment on his own. If the total advance paid by the taxpayer is less than 75% of gross income, taxpayer shall pay a fine to the extent of difference between 1/16-th of actual profit tax and actual advance payment of the current month.

7. After the end of the year under review, the taxpayer shall estimate profit tax amount on the basis of taxed profit, netting it with the amount of advance paid during the year.

8. If the actual profit tax amount is less than the total advance paid, the difference shall be returned to the taxpayer, in accordance with Article 33 of the Law "On Taxes". In such case, fines accrued on advance payment shall be suspended, from the day of notifying Tax Inspectorate about the actual profit tax amount, but not later than April 25. Fines accrued on the advance payment may not be returned, or recounted.

9. If the total of the advance payment is less than the actual profit tax amount, taxpayer shall pay the difference to the state budget. In this case accrual of fines on the advance payment shall be ceased from the day of notifying the State Inspectorate about the amount of profit tax (the day of submitting tax estimate). If there is a delay in profit tax payment, fines are accrued on the amount outstanding as of April 25, within the rates defined in Article 23 of the Law "On Taxes".

### **Article 48. Special Rules For Insolvent Taxpayers**

1. According to regulations on banking insolvency, profit tax payment of a taxpayer bank shall be suspended from the day of judicial award on liquidation of the bank and appointment of liquidator, until liabilities to creditors are fulfilled in the priority order defined by the law.

2. According to regulations on bankruptcy of legal persons and enterprises without legal status, profit tax payment of a taxpayer shall be suspended from the day of judicial award on bankruptcy, until liabilities to creditors are fulfilled in the priority order defined by the law.

#### **Article 49. Special Rules For Taxpayers In the Process of Liquidation**

Payment of profit tax by a taxpayer liquidated without entering the process of bankruptcy shall be suspended from the day of judicial award on liquidation, until liabilities to creditors are fulfilled in the priority order defined by the law.

#### **Article 50. Payment of Profit Tax**

A taxpayer shall pay profit tax to the state budget prior to April 25-th of the following year inclusive.

#### **Article 51. Correction of Profit Tax Estimate**

If a taxpayer finds errors in the profit tax estimate of the previous payment period, he may submit to the Tax Inspectorate corrected estimate, on the basis of which tax obligations of that period shall be recounted, in accordance with the procedure defined in law.

#### **Article 52. Netting of Profit Tax Paid from the Profit in a Foreign Country**

Income of a taxpayer in Armenia shall be reduced to the extent of the profit tax collected from the resident in a foreign country, by virtue of legislation of that country. Whereas, the reduced amount may not exceed the amount of profit tax to be paid in Armenia from the profit derived in a foreign country.

## **SECTION II. TAXATION OF NON-RESIDENTS**

#### **Article 53. Income Derived From Armenia Sources**

1. The following is considered as income derived from Armenian sources:
  - a) Income derived by entrepreneurship of a non-resident in the territory of Armenia;
  - b) Passive income received by a non-resident from a resident or non-resident of Armenia;
  - c) Other income derived in Armenia by a non-resident.
2. The following is considered as income from entrepreneurship in Armenia:
  - a) Income derived from realization of goods, and production, performance of works and provision of services in Armenia, irrespective of the place of payment;
  - b) Income derived from intermediary activity in Armenia;
  - c) Income derived from administrative, financial and insurance services, if payment of the income is considered as expense of the paying entity.
3. Passive income is the income derived exclusively by a third party from the property or other assets provided or invested by a non-resident within the territory of Armenia:
  - a) Dividends;
  - b) Interest;
  - c) Royalty;
  - d) Income from lease of property in Armenia;
  - e) Increase in value of property, or other assets, resulting from alienation of property, or other assets in Armenia;
  - f) Other passive income.
4. The following is considered as other passive income:
  - a) Administrative services;
  - b) Assistance for the effective use of transferred property, or rights;
  - c) Assistance in installation and operation of equipment, assembly lines, mechanisms, and devices;
  - d) Fee for insurance, unless envisaged otherwise in legislation of Armenia;
  - e) Consultation, assistance, or other services provided for any scientific, industrial, or trade project, or management of a joint venture;
  - f) Consultation and services provided by foreign companies to their subsidiary operating in Armenia;
  - g) Freight of goods;
  - h) Mediator services provided to enterprises for import and realization of goods

#### **Article 54. Subsidiary of a Non-Resident Place of Business**

1. A subsidiary of a non-resident is a separate subdivision registered in Armenia.
2. Place of business of a non-resident is the actual place of entrepreneurship of a non-resident which doesn't have a subdivision in Armenia.

Place of business can be an office, agency, plant, factory, workshop, mine, oil, or gas rig, place of geological research of minerals, construction site, service, assembly, installation, supervision of equipment.

If the entrepreneurship is carried out through an entrepreneur agent, the place of business shall be the place of location of the entrepreneur agent.

3. An entrepreneur agent is a resident legal person, enterprise without the status of a legal person, or physical person, whose activity is controlled by the non-resident through a letter of authority, or in any other manner, and who performs the following activity for the non-resident (authorizing person):

- a) Arrangement of purchases, signing purchase, or other agreements;



- b) Establishment of contractual agency relationship with a third party, regular accumulation, and storage of goods belonging to the authorizing person, delivery of such goods on behalf of the authorizing person;
- c) Representing the authorizing person in signing trade agreements, or performing purchase orders.

**CHAPTER 10.  
DEFINITION OF THE TAXABLE PROFIT OF A NON-RESIDENT**

**Article 55. Special Rules for Defining Taxable Object**

1. For the purposes of this Law, foreign economic activity is the activity related to the import of goods belonging to a non-resident, performed exclusively on behalf of the non-resident, in which case the resident becomes the owner of the goods, until the goods cross the state boarder of Armenia.

2. Income derived from foreign economic activity of a non-resident shall not be taxed.

3. If in the course of relations between the non-resident and a third person there occur such conditions which are different from the usual practice, Tax Inspectorate may make tax corrections, in accordance with tax legislation, in respect of any income which might have been accounted by the taxpayer, however was not, due to the current conditions.

4. If a non-resident performs activities not only in Armenia, but outside of it, without keeping separate accounting, therewith preventing to determine taxable profit derived through the subdivision, or place of business, taxable profit may be estimated on the basis of a process agreed between Tax Inspectorate and taxpayer.

5. Taxable profit derived through a subdivision, or place of business in Armenia may be estimated from the share of proceeds received on realization of goods (works, services) in Armenia as well as from the share of expenses incurred from activities of a non-resident in Armenia, or the share of employees of a non-resident working in Armenia.

6. For the purposes of profit tax estimation, Tax Inspectorate may exercise the rights envisaged by Article 22 of the law "On Taxes".

**Article 56. Reduction of Gross Income**

1. When estimating taxable income of a sub-division, or place of business, a non-resident may reduce gross income to the extent of expenses, and losses incurred in Armenia, on the basis of the submitted declaration. Whereas, allocation of formalized expenses, and actual losses between the non-resident, and his sub-division, or place of business in Armenia is allowed. Allocated expenses may include among the others administrative expenses incurred both in Armenia and outside.

2. When estimating taxable profit of a sub-division, the gross income shall be also reduced to the extent defined in this Law for the other reductions, except cases defined in Articles 24, 25 and 26.

3. Income derived by a non-resident from Armenian sources may be recognized by Tax Inspectorate as a result of entrepreneurship performed through a place of business in Armenia, if documents supporting entrepreneurship of a non-resident are submitted to the Tax Inspectorate.

**CHAPTER 11.  
PROCEDURE AND TERMS OF PROFIT TAX ESTIMATION AND PAYMENT BY A NON-REZIDENT**

**Article 57. Tax Rates for Non-Residents**

1. A tax agent, at the source of income shall do collection of tax on profit derived in Armenia by a non-resident. The following tax rates shall be applied for the collection of profit tax from a non-resident at the source of income, in accordance with article 64 the following will be collected:

Type of Income	Rate
Dividends; Interest	15%
Insurance fees; Freight	5%
Royalty; Rental on lease of property; Increase of property value; other Passive income (except the income from freight) as well as other income from Armenian sources	15%

2. The amounts collected by the tax agent shall be considered as the final profit tax paid by the non-resident in Armenia, except the cases when the non-resident performs activities in Armenia through a sub-division, or place of business recognized by Tax Inspectorate.

**Article 58. Exemption from Profit Tax Collected at the Source**

If the income paid to a non-resident is the result of a sub-division's activity, the sub-division shall submit to the Tax Inspectorate a certified reference about registration in Armenia, and availability of a taxpayer's identity code number, on the basis of which he is exempt from paying profit tax at the source, except cases envisaged in this Law, for paying profit tax against dividend payment.

**Article 59. Profit Tax Advance Payment for Non-Residents**

If the amount of profit tax paid by the non-resident performing activities through a sub-division exceeded dram 2 million during the preceding year, the non-resident shall make advance payments every six months,

in an amount of 1/4-th of the actual profit tax amount of the preceding year, in equal installments, prior to July 1 and December 31.

**Article 60. Statement of Annual Income**

A non-resident shall submit to the Tax Inspectorate a statement of annual income during the year under review as well as a report about his activities (on a voluntary basis) prior to April 25-th of the following year. The annual statement shall indicate all the income derived from Armenian sources. The Tax Inspectorate shall define the form of the annual statement.

**Article 61. Estimation of Profit Tax by Tax Inspectorate**

1. Estimation of profit tax of a non-resident having a sub-division, or place of business in Armenia shall be conducted by the Tax Inspectorate on the basis of the annual income statement submitted by the non-resident (or authorized person), taking into account the rates defined in Article 33 of this Law.

2. The amount of profit tax shall be estimated as the difference between the annual profit tax and advance payments during the previous six months.

**Article 62. Notification about Profit Tax Payment**

Within 10 days after submitting the declaration, the taxpayer shall receive notification about payment of the profit tax from the Tax Inspectorate.

**Article 63. Final Calculation**

Additional payments of profit tax to the budget or return of excessive profit tax paid shall be done within 1 month, after the notification is received.

**Article 64. Collection of Profit Tax at Source**

In accordance with Article 57 of this Law, the tax agent shall do collection of profit tax at the source.

**Article 65. Recounting of the Income Received as Goods**

If the income was received as goods (including barter), tax agent shall recount the income in drams, and collect the profit tax within the specified period.

**Article 66. Terms of Payment, and Submission of Estimates on Profit Tax Collected by Tax Agent.**

Tax agent shall transfer collected profit tax to the budget within three banking days. Tax agent shall submit a consolidated report about income paid to non-residents, profit tax collected, and the amounts transferred to the budget on a quarterly basis.

**Article 67. Provision of Certificate on Paid Taxes**

On the basis of a non-resident's application, Tax Inspectorate shall provide a reference certificate about taxes paid by the non-resident in Armenia, in Accordance with the legislation.

The amount of the tax paid shall include exemptions from taxes.

**Article 68. Tax Checks**

Tax Inspectorate is entitled to check financial, accounting and tax performance of a non-resident's sub-division, or place of business in Armenia, and check the correctness of profit tax amounts collected and paid to the budget by the taxpayer.

**SECTION III.  
FINAL PROVISIONS**

**CHAPTER 12.  
LIABILITY FOR BREACH OF LAW**

**Article 69. Liability of Taxpayers and Their Officials for Breach of the Law.**

Taxpayers and their officials bear responsibility for breach of this Law, pursuant to legislation.

**Article 70. Liability of a Tax Agent**

Responsibility for non-collection of profit tax at the source, and failure to transfer to the budget shall be born by the tax agent.

**CHAPTER 13.  
FINAL PROVISIONS**

**Article 71. Supplementary Legislation on Implementation**

Supplementary legislation on implementation of this Law shall be issued by the Tax Inspectorate, in coordination with the Ministry of Finance and Economy, whereas clarifications related to economic and other trade classification shall be coordinated with the State Statistics Department, and clarifications on marking the goods - with the Department of Standardization and Certification.

**Article 72. Entering Into Force**

This law shall enter into force from January 1, 1998.

From the moment this Law enters into force, the Law "On Profit Tax", dated January 18, 1992 shall be declared void, together with the amendments and supplements.

In cases indicated in Article 33 for gaining games, organization of casinos, lotteries and playing machines, computer games, and other cases defined in the legislation, presumptive taxes shall be collected.

**CHAPTER 14.  
TRANSITIONAL PROVISIONS**

**Article 73. Implementation of Privileges**

1. Reductions defined in Article 25 of this Law shall apply on damage incurred after January 1, 1997.

2. Term privileges effective prior to the entering into effect of this Law shall remain valid till the expiration of their validity period.

**Article 74. Implementation of Amortization Allocations**

1. Terms of amortization allocations defined in Article 12 of this Law for fixed assets as of January 1, 1998, shall be determined on the basis of a factor for non-amortized value, and periods defined in Item 2, Article 12:

$$T_m = (V-A)*T/V \quad \text{where,}$$

$T_m$  - minimum period of effective use of fixed assets purchased prior to January 1, 1998

$V$  - balance value of fixed assets as of January 1, 1998

$A$  - amortization total of fixed assets as of January 1, 1998

$T$  - minimum period of effective use for fixed assets defined in Article 12 of this Law.

2. Period of effective use for fixed assets acquired after January 1, 1998 shall be in accordance with the periods defined in Item 2, Article 12.