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THE LAW OF THE REPUBLIC OF ARMENIA ON CORPORATE TAX

CHAPTER I

THE OBJECT OF TAXATION AND ITS PAYERS

ARTICLE 1. Corporate tax is levied on the balance sheet profit of enterprises and or organizations calculated in the manner prescribed by the legislation of the Republic of Armenia, taking into the account its increase (decrease) according to the provisions of this law and other legislative instruments of the Republic of Armenia.

Corporate tax in the Republic of Armenia is payed by:

Enterprises and organizations recognized as legal persons by the legislation of the Republic of Armenia, as a proportion of the profit received within as well as without the territory of the Republic of Armenia; as well as international corporations and organizations, other foreign legal persons, subsidiaries and permanent representations thereof and other similar units (here inafter: foreign legal persons), as a proportion of the profit received from entrepreneurial activities within the Republic of Armenia.

Enterprises, organizations and foreign legal persons mentioned in this Article shall here after be referred to as enterprises.

CHAPTER II

THE CALCULATION OF TAXABLE PROFIT

ARTICLE 2. The taxable profit is calculated based on the balance profit, which is a sum of the profit received from sale of production (labor, services), immaterial assets, equity and other material values and profit received from non-sale transactions (less the expense for such transactions).

The profit from the sale of production (labor, services) is determined as the balance between revenues from the sale of the production (labor, services) (less the value added tax and excise tax) and the cost of its production and sale.

The amount of profit from the sale of immaterial assets, equity and other material values is determined in the manner prescribed by the government of the Republic of Armenia.

Income (expenses) from the non-sale transactions includes:

a) income from the lease of inventory

b) income from shares and securities, unless these have been previously taxed in cases provided by the legislation of the Republic of Armenia. The calculation and levy of corporate tax on income from shares and securities is implemented in the manner prescribed by the government of the Republic of Armenia

c) other income (expenses) from transactions not immediately related to production or sale of products (labor, services), including amounts received and paid as fines, penalties and loss of profit compensation, as well as amounts of indemnification of damage.

d) amounts received gratis from other enterprises and organizations, if they do not conduct joint activities (with the exception of funds transferred by founders in the manner provided by the legislation of the Republic of Armenia to the statutory funds of enterprises and organizations).

ARTICLE 3. When estimating the corporate tax to be paid from the income of enterprises received in kind against production (labor, services), the payment in kind is evaluated by applying relevant prices in the manner prescribed by the legislation of the Republic of Armenia.

ARTICLE 4. For the purposes of estimating the profit the cost of the product (labor, services) shall include:

a) material expenses

b) allocations towards compensating the full depreciation of principal production assets

c) payroll

d) lease payments

e) mandatory inventory insurance payments

- f) payments for public social and medical insurance
- g) interest payments for short-term loans (with the exception of arrears and deferred loans)
- h) other expenses associated with the production and sale of the product (including expenses for any repairs of the principal production assets).

ARTICLE 5. In case the government of the Republic of Armenia or an authorized body of state governance delegated by the government has defined norms for certain types of expenses, the amounts reflected in the cost of the production and sale of the product (labor, services) should be maintained within those norms.

ARTICLE 6. In certain domains of the economy, as well as several areas of economic and other commercial activity the specifics of the composition of income received from the production and sale of products (labor, services), as well as the associated costs are determined in the manner defined by the government of the Republic of Armenia.

ARTICLE 7. In case when the determination of profit received is considered impossible, it is permissible, based on the respective profit margins set for certain taxpayers by the government of the Republic of Armenia and endorsed by the National Assembly of the Republic of Armenia, to determine the profit by the gross income or incurred expenses, in the manner defined by the government of the Republic of Armenia.

ARTICLE 8. In order to calculate taxable profit the balance sheet profit (including its increase in cases provided for by the legislation of the Republic of Armenia) is decreased by:

- a) the amount of land tax and real estate tax
- b) the amount of vehicle tax
- d) the amount of other taxes and payments made from the profit that are defined by the legislation of the Republic of Armenia.

*Reduction
for other
taxes etc*


CHAPTER III

THE CALCULATION OF TAXABLE PROFIT

ARTICLE 9. Taxable profit is calculated as the balance between gross income as defined in Article 10 of this Law and expenses associated with receiving that income.

ARTICLE 10. Gross income is income from all types of economic and other commercial activities, that comprises:

- a) the revenue generated by sale of product (labor, services)
- b) the revenue generated by sale of inventory owned by the enterprise, less the residual balance value of inventory and costs associated with the sale
- c) interest received for loans
- d) payments received for leased property
- e) income from securities, except stock dividends in cases when corporate tax has already been levied on the profit dividends are paid from
- f) profit share from joint stock participation (including economic partnerships), unless corporate tax has already been levied on that profit
- g) profit from other forms of property management provided for by the legislation of the Republic of Armenia
- h) amounts received as economic sanctions, fines and loss of profit compensation, as well as indemnification of damage.

ARTICLE 11. For the purposes of calculation of profit the value added tax and excise tax are first deducted from gross income, followed by the deduction of expenses incurred for the generation of gross income:

- a) material expenses, that is expenses towards the purchase of the raw materials, materials, semi-processed goods, goods, fuel, energy and appliances
 - b) compensation against labor, including payments in kind
 - c) expenses for the repair of production assets and allocations toward the full compensation of depreciation
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- d) lease payments
- e) expenses on production-associated work and services performed by other enterprises, organizations and individuals, with the exception of capital investment and expenses on the repair of principal production assets
- f) travel claims, office, mail and telecommunication expenses
- g) marketing expenses, that is market studies, advertising, R&D, engineering and testing, sale, design expenses
- h) payments against natural resource utilization
- i) insurance payments
- j) interest payments for short-term loans (with the exception of arrears and deferred loans)
- k) payments for public social and medical insurance.

ARTICLE 12. In case the government of the Republic of Armenia has defined norms for certain expenses listed in Article 11 of this law, expenses incurred for the generation of income, that exceed those norms shall not be included in the composition of above-mentioned expenses.

ARTICLE 13. When estimating the amount of taxable profit of enterprises receiving payment in kind, such payment is evaluated by applying relevant prices in the manner prescribed by the legislation of the Republic of Armenia.

ARTICLE 14. In determining profit the specifics of the calculation of income received from different types of activities and expenses thus incurred are defined by the government of the Republic of Armenia.

ARTICLE 15. When calculating taxable profit, it is decreased:

- a) in the amount of the loss incurred as a result of sale or exchange of property (to be determined by the balance between the residual value and the sale or exchange price).
- b) the amount of land tax and real estate tax paid
- c) in the amount of the vehicle tax paid

*other
deductions*

d) in the amount of other taxes and payments that are defined by the legislation of the Republic of Armenia.

ARTICLE 16. In case when the direct determination of profit received is impossible, it is permissible, in the manner defined by the government of the Republic of Armenia, to determine the profit by the gross income or incurred expenses, based on the respective profit margins set for certain taxpayers by the government of the Republic of Armenia and endorsed by the National Assembly of the Republic of Armenia.

CHAPTER IV CORPORATE TAX SCHEDULE

ARTICLE 17. Corporate tax is levied on taxable profit by the following rates:

Annual sum of taxable profit (dram)	Corporate tax rate
up to 360 drams	12 percent
between 361 and 700 drams	43.2 drams plus 18% from the sum exceeding 360 drams
between 721 and 1080 drams	108 drams plus 25% from the sum exceeding 108 drams
1080 drams and over	198 drams plus 30% from the sum exceeding 1080 drams

ARTICLE 18. Banks and other financial and credit institutions, as well as insurance organizations pay the corporate tax by the rate of 45 percent.

Corporate tax on profit received from the organization and administering of games with winnings (including those in casinos) and lotteries is levied at the rate of 70%.

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The government of the Republic of Armenia, with the agreement of the standing committee of the National Assembly of the Republic of Armenia on finance and budgetary issues, may define other rates and amounts, or fixed payments of the corporate tax, the procedure of their calculation and collection, as well as privileges for certain taxpayers and groups thereof.

Enterprises and organizations conducting certain types of economic and commercial activity (including activities subject to fixed corporate tax payments) pay the corporate tax in separate for each type of activity in the manner prescribed by the legislation, by the respective rate. For this purpose the taxpayer breaks down his/her profit records by types of activity.

If no separate profit records exist by types of activity, all of the profit is taxed (irrespective of the fixed payment into the budget) by the highest corporate tax rate defined by the law for those types of activities.

ARTICLE 19. Based on the rate of inflation, the National Assembly of the Republic of Armenia, by the presentation of the government of the Republic of Armenia, reviews the tax rates stipulated in Article 17 of this Law on January 1 and July 1 of each year.

CHAPTER V

THE PROCEDURE OF POSTING THE CORPORATE TAX TO THE BUDGET

ARTICLE 20. The disbursement of corporate tax by the republican and local budgets is carried out in accordance with the procedure established by the legislation of the Republic of Armenia.

ARTICLE 21.

CHAPTER VI

CORPORATE TAX PREFERENCES

ARTICLE 22. The following entities are exempt from the corporate tax:

Exemption

a) enterprises and organizations in their agricultural line of activities (production of agricultural produce), with the exception of agricultural enterprises of the industrial type (green houses and fur farms, livestock husbandry complexes, agroindustrial complexes, poultry farms etc.), the list of which is endorsed by the government of the Republic of Armenia, with the agreement of the standing committee of the National Assembly of the Republic of Armenia on finance and budgetary issues.

Taxpayers pay land tax in the line of their agricultural activity. Those taxpayers, who receive over 25 percent of their revenue (income) from non-agricultural activity are not exempt from corporate tax in that line of activity. For this purpose taxpayers must maintain separate records of expenses for production and turnover as well as sales, broken down by agricultural and non-agricultural activities.

b) newly established enterprises within the first two years following their state registration.

The exemption stipulated in provision "b" of part one of this Article does not extend to state enterprises, remodelled enterprises, including privatised ones, enterprises created on the basis of liquidated enterprises, or branches, subsidiaries and representations thereof, as well as enterprises that conduct certain types of activities listed by the government of the Republic of Armenia with the agreement of the standing committee of the National Assembly of the Republic of Armenia on finance and budgetary issues.

In case the enterprise is liquidated within the first two years of its operation the amount of the tax is calculated in full for the whole period of operation.

The tax preference provided for in Article 24 of this Law extends to joint ventures and foreign investment enterprises conducting certain types of activities referred to in the above-mentioned list within the first two years following their state registration.

ARTICLE 23. The profit calculated in accordance with Article 8 of this Law is ~~decreased~~ decreased:

a) by the government of the Republic of Armenia with the agreement of the standing committee of the National Assembly of the Republic of Armenia on finance and budgetary issues, with respect to the subsidiaries of non governmental organisations, including charities, of religious or not for profit organizations that are covered by the list established by the government of the Republic

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of Armenia, in the amount of the profit of the latter that is transferred to these organizations for implementing their charter activities.

b)

c) in the amount of the capital investment of the enterprise in technical outfitting, expansion of the production, assimilation of new production and technologies

d)

e)

f)

g) in the amount of payments from the profit received into charity and other foundations, as well as transfers to cultural, educational, science, health, physical training and sport, social security and other enterprises, establishments and organizations, not to exceed 10% of taxable income calculated in accordance with this Law.

The list of the above-mentioned foundations, enterprises, establishments and organizations is defined by the government of the Republic of Armenia with the agreement of the standing committee of the National Assembly of the Republic of Armenia on finance and budgetary issues

h) in the full amount of the profit of enterprises, at least 50 percent of whose total work force is handicapped, or in the amount of 50 percent of the profit of enterprises, 30 to 50 percent of whose total workforce is handicapped.

i) in the amount of the sums allocated from the profit to reserve funds and other funds of similar intentment, until such funds attain the level set by the founding instruments, though not exceeding 25 percent of the actually formed statutory fund.

j) in the amount of income received from state bonds and other state securities.

ARTICLE 24. The amount of corporate tax on the profit of joint ventures and foreign investment enterprises, calculated in accordance with this law, is decreased beginning with the third year following their state registration until the tenth such year in the amount of 50 percent of the corporate tax provided the foreign partner's share in the statutory fund exceeds 50 percent and is not less than the equivalent of 100,000 US dollars, in case the foreign partner's share in the statutory fund is between 30 and 50 percent and is equivalent to 40 to 100,00 US dollars, the corporate tax is

decreased beginning with the third year following their state registration until the tenth such year in the amount of 30 percent, except for the joint ventures and foreign investment enterprises conducting certain types of activities mentioned in the list referred to in part two of Article 22 of this Law.

If the above-mentioned enterprises cease to function within the first five years, the corporate tax is calculated in full, beginning from the third year following the state registration.

ARTICLE 25. The granted tax preferences should not result in a decrease of corporate tax collected into the state budget by more than 60%, except in cases provided for by Article 22, as well as clauses "a" and "h" of Article 23.

CHAPTER VII

THE PROCEDURE FOR CALCULATING THE TAX AND ITS PAYMENT SCHEDULE

ARTICLE 27. Taxpayers determine the amount of tax to be paid individually, based on the amount of taxable profit and taking into the account the tax rates and preferences.

The government of the Republic of Armenia, with the agreement of the standing committee of the National Assembly of the Republic of Armenia on finance and budgetary issues, may define a list of ministries, state directorates, departments, associations, enterprises and organizations, the subordinate enterprises and organizations of which are entitled to pay and calculate corporate tax, as well as submit reports thereof in a centralized manner or a special procedure established for the latter.

ARTICLE 28. With the exception of those listed in Article 29 of this Law, as well as those, whose amount of corporate tax within the preceding quarter did not exceed a factor of two hundred and fifty of the minimum salary defined in the Republic of Armenia, taxpayers pay corporate tax advances in the duration of a quarter.

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Advance payments of corporate tax into the budget are made six times during the quarter in equal installments in the amount of 1/6th of the preceding quarter's corporate tax, no later than on the 15th and 28th days of every month. Until the calculation of the preceding quarter's corporate tax in the timeframe defined by Article 31 of the Law, the amount of the corporate tax advances is determined individually based on the financial indices of the ongoing year. During the first advance payment following the submission of the accounting reports and the corporate tax calculation the amounts of the advances are adjusted cumulatively since the beginning of the quarter by rates referred to in this Article.

Those who pay after the completion of the first three months, six months, nine months and a year calculate the amount of the tax cumulatively since the beginning of the year, based on actually received and taxable profit.

ARTICLE 29. Enterprises involved in agricultural and other seasonal production, as well as those payers, whose amount of corporate tax within the preceding quarter did not exceed a factor of two hundred and fifty of the minimum salary defined in the Republic of Armenia, determine their tax once in a quarter, cumulatively since the beginning of the year, posting the amount of tax calculated for the preceding quarters.

ARTICLE 30. Joint ventures created on the territory of the Republic of Armenia with the participation of legal and natural persons of the Republic of Armenia and other countries, as well as foreign legal persons make corporate tax advance payments every quarter no later than on the 15th day of the last month. The advance payment for the ongoing year's corporate tax is determined by the enterprise itself, taking into the account the financial indices of the year.

ARTICLE 31. All taxpayers (with the exception of those listed in Article 30 of this Law) submit to the tax authorities of their location quarterly and annual accounting reports and corporate tax calculations. Moreover:

a) the quarterly accounting reports and corporate tax calculations are submitted by enterprises and organizations before the 25th day of the month following the accounting quarter, and by

the ministries, state directorates, departments, associations, enterprises and organizations referred to in part two of Article 27 of this Law, before the 15th day of the month following the accounting quarter.

b) the annual accounting reports and corporate tax calculations are submitted by enterprises and organizations before the 25th of February of the year following the accounting year, and by the ministries, state directorates, departments, associations, enterprises and organizations referred to in part two of Article 27 of this Law, before the 15th of March of the year following the accounting year.

Joint stock companies and limited liability partnerships, along with quarterly and annual reports and balance sheets, also submit to tax authorities information on the income of their stock and shareholders. In case the activities are terminated before the completion of a calendar year, the above-mentioned documents must be submitted within one month from the day of the termination, in the procedure defined by government of the Republic of Armenia.

Joint ventures created on the territory of the Republic of Armenia with the participation of legal and natural persons of the Republic of Armenia and other countries, submit annual accounting reports, balance sheets and corporate tax calculations before the 15th day of March of the year following the accounting year.

ARTICLE 32. The payment of tax according to quarterly calculations is made within five days from the date defined for the submission of accounting reports (balance sheets), and according to annual calculations - within ten days from the date defined for the submission of annual accounting reports (balance sheets).

ARTICLE 33. The enterprises pay corporate tax in a non-cash way in the currency officially in circulation in the Republic of Armenia, or, if they wish, in foreign currency by the currency rate effected by the Central Bank of the Republic of Armenia on the day of the payment.

The taxpayers submit to the banking institutions the drafts on transferring corporate tax into the budget before the expiry of the payment date.

ARTICLE 34. The amounts of corporate tax that have been overpaid as a result of the taxpayer's calculating error or in violation of the prescribed order of levying by authorized state bodies, are to be refunded or, if the payer so wishes, posted towards other receivables within one month from the fact becoming known against not more than three years following the day of overpaying, by a written application of the payer.

The submission to the tax authorities of a written application for the refund of overpaid corporate tax sums voids the timeframe referred to in the first part of this Article.

CHAPTER VIII

CORPORATE TAX LEVIED ON FOREIGN LEGAL PERSONS

ARTICLE 35.

ARTICLE 36. The specifics of the formation of profit and the composition of expenses associated with its forming that are given consideration when calculating it in case of the profit of foreign legal persons in the Republic of Armenia are defined in the manner prescribed by the legislation of the Republic of Armenia.

ARTICLE 37. The profit of foreign legal persons operating on the territory of the Republic of Armenia is taxed in a general manner provided for by this Law.

ARTICLE 38. Foreign legal persons are entitled to tax preferences defined by this Law for joint ventures.

In cases when joint ventures, depending on the share of the foreign partner, are entitled to several preferences, foreign enterprises enjoy the biggest of the preferences granted.

ARTICLE 39. The foreign legal person submits to the tax authorities a report on its activities no later than on the 15th day of March of the year following the accounting year as well as, in cases provided for by the legislation of the Republic of Armenia, an income declaration.

In case the activities of a foreign legal person are terminated before the completion of a calendar year the above-mentioned documents must be submitted within one month from the day of the termination of activities, in the procedure defined by government of the Republic of Armenia.

The taxpayer is issued a payment notice on the amount of the tax calculated in the manner prescribed by the legislation of the Republic of Armenia.

The tax is paid within the timeframe mentioned in the notice in a non-cash way in the currency in circulation in the Republic of Armenia or in foreign currency.

ARTICLE 40. The levying of corporate tax on foreign legal persons may be stopped or limited on a reciprocal basis in cases when the respective foreign state implements similar moves with relation to the legal persons of the Republic of Armenia, which must be verified by the tax authorities of that country.

CHAPTER IX

THE RESPONSIBILITY FOR VIOLATING THIS LAW

ARTICLE 41. The payers and their officials shall be held responsible in the manner prescribed by the legislation of the Republic of Armenia for violating of this law.

ARTICLE 42. For concealing the taxable object or disclosing a diminished value for it the full amount of tax against the concealed or diminished object shall be levied on the payer, as well as a penalty in the same amount. If more than one such violation is made within one year following the inspections the penalty shall be twice that sum.

CHAPTER X

INSTRUCTIONS ON IMPLEMENTING THE LAW