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# **LAW OF THE REPUBLIC OF ARMENIA**

## **On Compulsory Social Insurance Contributions**

Passed by the National Assembly  
on 26 December 1997

The Law defines the concept, legal, financial and organizational principles, rates and rules of payment of compulsory social insurance contributions (social contributions) .

### **CHAPTER I**

#### **General Provisions**

##### **Article 1. Main concepts defined by the law**

Main concepts defined by the law have the following meanings:

Contributor: legal and physical entities, enterprises not having the legal entity status which calculate social contributions, do their deductions and transfer (pay) them to the body authorized by the Government of the Republic of Armenia (hereinafter authorized body).

Arrears: the sum of social contributions not paid by contributors in the timeframe defined by the Act.

##### **Article 2. Legislation on social contributions**

1. The payment of social contributions shall be regulated by the Constitution of the Republic of Armenia, this Act and other legislative acts of the Republic of Armenia.
2. If norms, other than those provided by the Act, are defined by the international agreements of the Republic of Armenia, then the norms of the international agreements are enacted.

### **CHAPTER II**

#### **Concept of Social Contributions, Payers and Objects**

##### **Article 3. The concept of social contributions and payers**

1. Social contributions are compulsory financial contributions paid by contributors in

order to finance state social insurance programs.

2. Social contributions are made in Armenian currency. Amounts paid in foreign currency are recalculated in Armenian currency according to the exchange rate defined by the Central Bank of the Republic of Armenia on the day of payment.
3. Legal entities, enterprises not having the status of legal entity, as well as citizens of the Republic of Armenia should make social contributions, if this Act does not foresee some other thing.
4. Social contributions are paid by:
  - a) Employers;
  - b) Employees;
  - c) Individual entrepreneurs;
  - d) **Physical persons gaining incomes from execution of civil contracts;**
  - e) **Owners of agricultural land and legal entities formed by their unions.** (with amendment of 26.12.2000)
5. Foreign citizens and stateless persons carrying out entrepreneurial or other activity in the Republic of Armenia do not pay social contributions.

#### **Article 4. Objects of social contribution calculations**

1. Objects of social contribution calculations are:
  - a) Salary funds of employers;
  - b) Salaries of employed physical entities and incomes equaled to them;
  - c) **Annual incomes of individual entrepreneurs, without taking into account personal deductions for income taxation purposes and incomes gained by persons from execution of civil contracts and rendering of services**
  - d) **Net cadaster income of agricultural land** (with amendment of 26.12.2000)
2. The list of salary funds and incomes equaled to them shall be defined by the Government of the Republic of Armenia.

### **CHAPTER III**

#### **Rates, Rules for Calculation and Payment of Social Contributions**

##### **Article 5. Rates of social contributions**

1. **Social contributions for each employee shall be paid by employers at the following rates :**

<b>Monthly Rate of Social Contribution Object</b>	<b>Social Contribution Rate</b>
<b>Up to 20,000 drams</b>	<b>5,000 drams</b>
<b>From 20,000 till 100 000 drams</b>	<b>5,000 drams plus 15 percent of the amount exceeding 20 000 drams</b>
<b>Over 100,000 drams</b>	<b>17,000 drams plus 5 percent of the amount exceeding 100,000 drams</b>

**Note, that social contributyions shall be calculated by each employer without taking into account mandatory social insurance payments made by other employer(s) for the hired employee.**

**For hired employees of non-trading organizations, cultural, educational (including pre-school), scientific, medical institutions, the minimal rate of social contributions defined by the first part of this clause shall apply for each full time position. For royalties instead of the minimal rate of social contributions defined in the first part of this clause, social contributions shall be calculated by rate of 15 percent of the royalty. (with amendment of 26.12.2000)**

- 2. Employees pay social contributions amounting to 3 percent of the salary and incomes equaled to it, the deduction and transfer of which to the authorized body is done by the employer.**
- 3. The owners of agricultural land and the legal entities formed by their unions shall pay social contributions by rate of 5 percent of net cadaster revenue calculated for agricultural land considered as property for the given year by order defined which shall not exceed 60 000 drams annually. The owners of agricultural land using hired employees and legal entities formed by their unions shall pay social contributions also by rates defined for employers and hired employees.**
- 4. The rates of social contributions defined for employees and hired employers do not apply for owners of agricultural land and for the members of families of onwers of land of subjects of business entities having legal status and formed based on union of owners of agricultural lands.**
- 5. Individual entrepreneurs shall pay social contributions by the following rates :**

<b>Annual Rate of Object Subject to Social Contributions Calculation</b>	<b>The Rate of Social Contributions</b>
<b>Up to 1,200,000 drams</b>	<b>15 percent</b>
<b>Over 1,200,000 drams</b>	<b>180,000 drams plus 5 percent of the amount exceeding 1,200,000 drams</b>

**Irrespective of the provisions of the first section of this clause, social contributions are paid by rate of 60 thousand drams annually, if for the given year of income receipt the rate of social contributions defined by the first section does not exceed 60 thousand drams.**

**For physical persons that have gained incomes from execution of civil contracts, the social contributions shall be paid according to clauses 1 and 2 of this article. (with amendment of 26.12.2000)**

6. The responsibilities for calculation of social contributions, deductions and their transfer (payment) to the authorized body defined by this Act are the contributors.

#### **Article 6. Rules for calculation and payment of social contributions**

- 1. Employers and persons paying incomes within confines of civil contracts shall calculate and pay social contributions to the authorized entities within two work days following the day of income payment. (with amendment of 26.12.2000)**
- 2. The authorized body calculated social contributions of owners of agricultural land and legal entities formed based on their unions<sup>1</sup> and mentions them to agricultural farms by information forms defined by the legislation of the Republic of Armenia.**
- 3. Individual entrepreneurs, owners of agricultural land and legal entities formed on the basis of their unions shall pay the social contributions calculated for the year<sup>2</sup> no later than March 1 of the following year.**
- 4. The employer submits a report to the authorized body for each quarter, no later than the 25th day of the month following the quarter, according to rules set by the legislation of the Republic of Armenia.**
- 5. Up to 365th day from the day the social contribution payments have been delayed from the scheduled time, a fine equal to 0.15 percent of the arrears is collected from the contributor for each day. The mentioned fine is also applied to social contributions disclosed (reported by a lower amount) through inspection and reduction of social contributions calculated for social contribution object, for the whole period of the delay from the date of scheduled time.**

**In case of identifying violations to this law, no liability of social contributions may arise if the given violation is identified three years after it was committed. The age period defined by this section is eliminated if due to the absence of the contributor or the officials or other hindering activities the attempt of audit or other method of the authorized entity in terms of calculation of liabilities of social contributions has failed after recording of the fact of failure by the**

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<sup>1</sup> with supplement of 26.12.2000

<sup>2</sup> with amendment of 26.12.2000

**corresponding official of the authorized entity. After termination of the elimination grounds designed in terms of this section, the aging period shall continue of the authorized entity or its corresponding official knew or could know about the grounds of elimination. (with amendment of 26.12.2000)**

**In case of late payment of social contributions, the authorized entity, except for the cases defined by the Government of the RA, applies to court within 183 days after the period defined for social contributions with a claim to declare the contributor as unable to pay. Note, that the authorized entity may not refuse the claim as long as liabilities of social contributions are not completely covered. (with supplement of 26.12.2000)**

6. In case of concealing social contribution objects and or reporting a lower amount for it, the social contribution amount, calculated (by the authorized body) for the concealed or diminished amount for the social contribution object, as well as fine amounting to 50 percent of the mentioned amount are collected. And, in case of repeated concealing or diminishing the reported amount for the social contribution object, within one year after the first violation has been recorded by the authorized body, the whole amount of social contributions is collected.

**Failure to register the newly hired employee by order defined by constitution, shall cause the employer to pay social contributions by the rate of 12 fold the social contributions rate calculated against the average salary formed at the entity at the given moment. (with amendment of 26.12.2000)**

7. Contributors, within ten days after the authorized body has presented the corresponding document shall pay the concealed amount or the lower reported amount of social contributions for the social contributions object, as well as calculated fines and penalties.
8. In case of delay of social contribution payment from the defined schedule, the authorized body has the right to initiate a lawsuit for confiscating the property of the contributor. The authorized body, as a measure for ensuring compliance with court decision on collection of the social contribution debt (arrear plus fines), puts a block on the property of the contributor and ensures its realization.
9. Privileges for the payment of social contributions are defined by law.

#### **Article 7. Rules for returning social contributions paid over the limit to contributor**

Amounts of social contribution paid or collected over the limit are transferred to the calculated fines, future social contributions with the consent of the contributor or are returned to the payer with in 30 days after the application, after which for every day of delay the authorized body pays a fine equal to 0.15 percent of the amount due to be returned.

## **CHAPTER IV**

### **The Entity Ensuring the Payment of Social Contributions**

#### **Article 8. The entity ensuring the collection of social contributions**

The collection of social contributions is ensured by the authorized entity, which, until the Social Insurance Act of the Republic of Armenia will be adopted, directs the collected amounts to state social insurance programs in cases defined by the legislation of the republic of Armenia and in amounts defined by the Government of the Republic of Armenia.

#### **Article 9. Main authorities of the authorized entity**

Supervision of the calculation and payment of social contributions is done by the authorized body, which is authorized to:

- a) Inspect the documents of employers' salary fund and financial means equaled to them, and the documents of calculation and payment of incomes of social contribution objects of individual entrepreneurs, persons carrying out scientific and creative work, as well as persons not mentioned in this Article, in accordance with rules set by the legislation of the Republic of Armenia;
- b) Demand and receive from contributors documents containing necessary information on social contributions, according to rules set by the legislation of the Republic of Armenia;
- c) Demand from inspected contributors to eliminate violations of the requirements of this Act.
- d) Demand and receive necessary documents regarding social contributions from banks and financial institutions, according to rules set by the legislation of the Republic of Armenia;
- e) Contributors (their directors and officials) not registered with the authorized body or not making the payments of social contribution in the defined timetable, within one month after being registered with the state, are held responsible according to rules defined by the legislation of the Republic of Armenia.

## **CHAPTER V**

### **Rules for Registration, Rights, Obligations and Responsibility of Social Contribution Payers**

#### **Article 10. Registration of social contribution payers**

1. Employers, agricultural farms, individual entrepreneurs, persons carrying out

scientific and creative work within one month after being registered with the state should register with the authorized body as contributors according to rules defined by the Government of the Republic of Armenia.

2. Employers, agricultural farms and individual entrepreneurs are registered by the place of state registration of activities.
3. Persons carrying out scientific and creative work are registered by the place of their residence.

#### **Article 11. Rights, obligations and responsibility of social contribution payers**

1. Social contribution payers, according to rules set by the legislation of the Republic of Armenia, have the right to:

- a) Participate in inspections, get acquainted with document of inspection of their activities and receive one copy of these documents;
- b) In case of not agreeing with the results of inspection, present written recommendations or appeal to the court, within ten days after receiving the documents;
- c) Appeal the illegal actions of the officials of the authorized body;
- d) Receive clarifications from the authorized body regarding the calculation and payment of social contributions;
- e) Demand an receive or transfer to future payments account, amounts of social contribution collected or paid over the limit.

2. Social contribution payers, according to rules set by the legislation of the Republic of Armenia, have the obligation to:

- a) Register with the authorized body;
- b) Submit reports and income declarations to the authorized body;
- c) Present the corresponding documents establishing the right to privileges.

3. If employers an individual entrepreneurs do not have accounting records, or keep the records with such violations, or conceal social contribution objects or other documents considered as basis for social contributions, which have resulted or could have resulted in diminishing social contributions or making the calculation of the amounts of social contributions impossible, then the amount of social contributions to be collected is defined at twice the amount of the previous period of the same length, and those who committed the violations are held responsible, according to rules set by the legislation of the Republic of Armenia.



**Article 12. Rules for appeal of action of officials of the authorized body**

Action of officials of the authorized body can be appealed to the superior body or courts.

**CHAPTER VI.**

**Concluding Provisions**

**Article 13. Agency normative acts regarding the enforcement of the Act are adopted by the authorized body according to rules set by the legislation of the Republic of Armenia.**

**Article 14. Entering into force of this Act**

This Act is effective from the moment of promulgation.

30 December 1997