

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

CHAPTER 1.

GENERAL PROVISIONS

Article 1. Scope of the Law

This Law regulates the relationships pertaining to determination and payment of income tax, defines the scope of income tax payers in the Republic of Armenia, the rates, manner of calculation and payment of the income tax.

Article 2. Concept of the income tax

The income tax is a direct tax paid to the State budget of the Republic of Armenia by taxpayers (in cases as prescribed by law through the tax agent – an organization or individual entrepreneur or notary) in the manner, at the amounts and within the timeframe as envisaged by this Law.

CHAPTER 2.

TAXPAYERS AND THE TAX BASE

Article 3. Income taxpayers

1. Natural persons, including individual entrepreneurs and notaries who are residents of the Republic of Armenia (hereinafter referred to as residents) and natural persons, including individual entrepreneurs and notaries who are non-residents of the Republic of Armenia (hereinafter referred to as non-residents) shall be deemed as income taxpayers (hereinafter taxpayers).

2. In the meaning of this Law a resident is considered to be the natural person who has resided in the Republic of Armenia for a total of 183 or more days during the course of the tax year at any stage of the 12-month period which starts and ends during the fiscal year (from January 1 through December 31) or who has the center of vital interests located in the Republic



of Armenia, as well as the natural person who is a state servant of the Republic of Armenia and works temporarily away from the territory of the Republic of Armenia.

In the meaning of this Law, the location where the family or economic interests of the individual are concentrated shall be deemed as the center of vital interests. In particular, it is considered that the center of vital interests of the individual is located in the Republic of Armenia, if the house or apartment where the individual's family reside and his or her (family's) main personal or family property is maintained, or the place of his or her core economic (professional) activity is based in the Republic of Armenia.

3. In the meaning of this Law, the natural person who is not a resident as established in Clause 2 of this Article shall be deemed as a non-resident.

Article 4. The Tax Base

1. Taxable income subject to be received within and outside the territory of the Republic of Armenia shall be deemed as the tax base for the resident.

2. Taxable income subject to be received from Armenian sources shall be deemed as the tax base for the non-resident.

3. Taxable income is the positive difference between the taxpayer's gross income and the deductions and the expenses for the reporting period as defined by this Law, unless otherwise established by this Law with respect to determining the tax base.

Article 5. Gross Income

1. Gross income shall constitute the aggregate of all incomes to be received by the taxpayer during the reporting period.

2. Income shall constitute property receivable by the taxpayer under employment or civil-legal agreements or on any other grounds, as well as incomes subject to receipt in kind (non-cash).

3. Incomes to be received in kind (non-cash) shall be considered in the gross income at liberal (market) prices in the manner established by the Government of the Republic of Armenia.

4. Incomes receivable by natural persons in foreign currency shall be recalculated in Armenian drams based on the average market exchange rate as announced by the Central Bank

of Armenia as of the date when the right to these incomes is earned.

Article 6. Deductible Incomes

In the meaning of this Law, the below listed shall be deemed as deductible incomes:

- 1) Benefits paid in conformity with the legislation of the Republic of Armenia, with the exception of benefit amounts defined by the Law of the Republic of Armenia “On Temporary Incapacity”;
- 2) All types of pensions paid in conformity with the legislation of the Republic of Armenia (including pensions paid for voluntary participation in the mandatory funded pension system), save for pensions duly paid under the voluntary fully-funded pension system;
- 3) Funded pension insurance contributions paid by the taxpayer in his/her name and/or paid by a third party (including the employer) on behalf of the taxpayer under a funded pension scheme as prescribed by the legislation of the Republic of Armenia, at the maximum of 5% amount of the taxpayer’s gross income;
- 4) Insurance fees, save for amounts (including pensions) duly receivable at the expense of amounts under the voluntary funded pension contributions paid by the taxpayer for himself/herself and/or paid by a third person (including the employer) on behalf of the taxpayer under a voluntary funded pension scheme in the manner prescribed by the legislation of the Republic of Armenia;
- 5) Funded pension contributions paid by the State on behalf of the taxpayer under a mandatory funded pension scheme in the manner prescribed by the legislation of the Republic of Armenia;
- 6) Incomes receivable before the legally prescribed date of pension entitlement against funded pension insurance contributions paid by the taxpayer for himself/herself and/or paid by a third party (including the State, employer) on behalf of the taxpayer under the funded pension scheme in the manner prescribed by the legislation of the Republic of Armenia;

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- 7) Incomes related to the service in the military and persons with an equivalent status, rescue service servants;
- 8) Lump sum amounts paid to family members of deceased military servants and to those military servants who have become disabled in compliance with the legislation of the Republic of Armenia;
- 9) Awards, assistance in cash and aids provided under the social protection system in conformity with the legislation of the Republic of Armenia;
- 10) Alimonies (maintenance allowances) paid in conformity with the legislation of the Republic of Armenia;
- 11) Incomes receivable by natural persons against donor blood and breast milk and other types of donorship;
- 12) Compensations paid under the norms defined by the legislation of the Republic of Armenia against the performance of works (delivery of services) under employment and civil-legal agreements (including compensations paid to diplomatic servants), other than payments of compensation against unused leave upon resigning;
- 13) Property and funds receivable from natural persons as a heritage and (or) donation (gift) in accordance with the legislation of the Republic of Armenia;
- 14) Cash and in-kind assistance to natural persons provided within their statutory activities by non-commercial organizations which are incorporated in the manner prescribed by the legislation of the Republic of Armenia and registered with the tax authorities;
- 15) Gratis property and funds provided to natural persons on the basis of decisions of the state and local self-government bodies of the Republic of Armenia, as well as by foreign governments and international inter-state (inter-governmental) organizations;
- 16) Value of food allowances, as well as amounts paid as a replacement for these allowances;

- 17) Proceeds receivable by natural persons, other than from tax agents, from the sale of their own property, with the exception of proceeds receivable from the sale of property as part of their business operations;
- 18) State scholarships paid by the State to students, post-graduates of higher educational institutions, students of secondary vocational and professional technical educational institutions, attendees of seminaries, as well as scholarships provided to them by the above educational institutions or organizations specified in sub-clauses 14 and 15 of this clause;
- 19) Amounts duly received as a compensation for incurred losses, save for compensation against lost income;
- 20) Amount of receivable loans and borrowings, save for loans or borrowings forgiven by the creditor or any other agreement reached with the creditor on non-repayment of these amounts (including, the moment of expiration of the statute of limitation as stipulated by law);
- 21) Lump-sum benefits provided in case of the death of the employee or his or her family member;
- 22) Prizes of sportsmen and coaches won at international contests and competitions as members of national team of the Republic of Armenia;
- 23) Cash and in-kind winnings of participants of lotteries conducted in the manner and under conditions established by the legislation of the Republic of Armenia;
- 24) Value of cash prizes won at contests and competitions at the maximum amount of 10000 AMD for each prize;
- 25) Amounts of compensation at 10 percent of the annual tuition fee paid for students of higher educational institutions studying on a paid basis within the limits set out by the Government of the Republic of Armenia;
- 26) Government awards (prizes);

- 27) Amounts redeemable from the Deposit Insurance Guarantee Fund in the manner prescribed by the Law of the Republic of Armenia “On Guaranteeing Compensation of Bank Deposits of Natural Persons”, except for the accrued payable interests on the deposit amounts;
- 28) Amounts redeemable against cash deposits placed with the ArSSR Republican Bank of the USSR Savings Bank before June 10, 1993;
- 29) Amounts paid to individuals against their owned real estate taken away from them for the State or community needs, as well as to the registered tenants of such real estate.
- 30) Prizes and bonuses provided as a result of lottery conducted in order to support tax administration in the manner established by the Government of the Republic of Armenia;
- 31) Income receivable from sale of hand-made carpets by taxpayers engaged in production of hand-made carpets;
- 32) Insurance premiums paid by employers for the health insurance of their hired employees at the maximum amount of AMD 10 000 per employee for each month of his/her receivable income.

Article 7. Inclusion of Return on Securities in the Tax Base

1. Unless otherwise provided for in this Article, when assessing the tax base the taxpayer’s gross income shall be deducted at:

- 1) The amount of receivable dividends. In the meaning of this Law income received from participation (share, equity securities, interest) in the statutory (paid-in) capital (fund) of a legal entity shall be deemed as a dividend;
- 2) The amount of income receivable as interest or discount premium upon redemption of treasury bonds and other government securities, and bonds issued by the Pan-Armenian Bank;
- 3) The amount of income receivable as interest from disposal of treasury bonds and other government securities, and bonds issued by the Pan-Armenian Bank, their exchange with other securities or other similar transactions;
- 4) The amount of income receivable from disposal of stocks or other investment instruments, their exchange with other securities or other similar transactions.

5) The amount of funds received on securities certifying participation on investment funds, (including on disposal, exchange of these securities and other similar transactions, distribution of dividends or other similar distributions, as well as transactions performed at the expense of assets of contractual investment funds).

2. Incomes specified in Clause 1 of this Article shall be incorporated in gross income if these incomes are:

1) Received from disposal of a promissory note, check or other payment security issued as a payment instrument, or

2) Actually received as remuneration against goods, works or services or a substitute thereof, regardless whether a real investment or borrowing is made against the security.

3. The taxpayer who acts as an independent investment broker or dealer shall have the right not to include in his or her gross income the incomes specified in Sub-clauses 3) and 4), Clause 1 of this Article if:

1) In the taxpayer's registry (or other transaction records) the security is recorded as a held-for-investment paper by the close of business of the date of its acquisition, and

2) The security is not disposed within twenty-four months after the date of its acquisition. Within the meaning of this Sub-clause, pledging of the security, handover of the security to trust management by the right to transfer, handover of the security to a third party under a power of attorney which entitles the third party to transfer the security or any other transaction testifying to the actual implicit transfer of the security to a third party at the moment of its execution shall be deemed as disposal.

4. Where the taxpayer is entitled not to include the income specified in this Article in his gross income, and the taxpayer does not include the acquisition price of the security in his/her gross income under any other Article of this Law, the taxpayer shall have the right to not include in his/her gross income only the difference between the acquisition price of the security and income (return) on its sale as per Sub-clauses 3) and 4), Clause 1 of this Article.

Article 8. Inclusion in the Tax Base of Incomes Received from Agricultural Production

1. When assessing the tax base, the gross income of the taxpayer engaged in agricultural production shall be deductible under this article at the amount of income receivable from the sale of agricultural products, as well as from other activities, provided their share in the gross income from agricultural and other activities does not exceed 10 percent. In case the share of incomes receivable from other activities exceeds 10 percent of the gross income from agricultural and other activities, no deductions shall be made under this clause from the gross income.

2. For the purposes of this Article, the below listed items produced through biological transformation of animals or plants for end-use or interim use shall be deemed as agricultural products:

- 1) Grain crops and legumes;
- 2) Industrial crops;
- 3) Tuberos plants, vegetables, melons and gourds and greenhouse products;
- 4) Field cultivated fodder crops;
- 5) Other products of feed production;
- 6) Products of gardens, vineyards, perennials and floriculture;
- 7) Seeds of trees and bushes, seeds in fruit;
- 8) Grafts of trees and bushes;
- 9) Saplings of trees and bushes;
- 10) Output of animal production;
- 11) Output of pig production;
- 12) Output of sheep and goat production;
- 13) Output of poultry production;
- 14) Output of horse, donkey and hinny production;
- 15) Output of deer and camel production;
- 16) Output of rabbit and fur game production, hunting;
- 17) Output of aquaculture, beekeeping, sericulture, artificial insemination.

3. Should it be impracticable to calculate the income receivable from agricultural production, it shall be calculated on the basis of net income cadastre data adopted in the manner established by the legislation of the Republic of Armenia.

Article 9. Inclusion in the Tax Base of Income Receivable by Non-Residents

1. When determining the tax base of a non-resident, except for the incomes identified in Articles 6; 7 and 8 of this Law, the gross income of a non-resident shall not include the income payable to the non-resident from Armenian sources in connection with his/her foreign economic activities either.
2. For the purposes of this Law, activities performed exclusively on behalf of the non-resident, import of goods belonging to the non-resident in Armenia (provided these goods are supported by customs documents and no agents are involved in the import operation), in which case the non-resident holds the title of such goods before they cross the state border of the Republic of Armenia shall be deemed as foreign economic activities.

3. Incomes received in the Republic of Armenia by non-resident natural persons shall be taxed under the general taxation regime laid down in this Law. Within the meaning of this Law, incomes received from Armenian sources shall include:

- 1) Labor compensation and other equivalent payments effected in the Republic of Armenia;
- 2) Incomes arising from execution of civil-legal agreements in the Republic of Armenia;
- 3) Incomes received from business operations conducted by the non-resident within the territory of the Republic of Armenia (sale of output, goods and delivery of services);
- 4) Passive incomes and other incomes received from Armenian sources under any other arrangement.

4. Incomes from the activities executed within the territory of the Republic of Armenia exclusively by other entities involving the own property or other assets invested (provided) by the non-resident shall be deemed as passive incomes which, in particular, shall include:

- 1) Dividends;
- 2) Interests;
- 3) Royalties;
- 4) Income received from rent of property located in the Republic of Armenia;
- 5) Premium on the value of property and other assets received from disposal of property located in the Republic of Armenia;
- 6) Income received against delivered freight operations.

CHAPTER 3. RATES OF INCOME TAX

Article 10. Rates of Income Tax

1. Except for the cases identified in Clauses 2 through 8 of this Article:

1) The income tax shall be calculated by the tax agent at the following rates:

Size of monthly taxable income	Tax amount
Up to AMD 120.000	24.4 percent of taxable income
Above AMD 120.000	AMD 29.280 plus 26 percent of the excess amount of AMD 120.000

2) The income tax on non-taxed incomes shall be calculated by the tax agent at the following rates:

Size of annual taxable income	Tax amount
Up to AMD 1.440.000	24.4 percent of taxable income
Above AMD 1.440.000	AMD 351.360 plus 26 percent of the excess amount of AMD 1.440.000

2. If the natural person receives in cases prescribed by legislation the accrued amount under a voluntary funded pension insurance scheme as one-off withdrawal in the manner established by the legislation of the Republic of Armenia, then the income tax shall be calculated at the rate established by Clause 1, sub-clause 1 of this Article, without considering the deductions stipulated by this Law.
3. Income tax for receipt of pensions from the amount of voluntary funded pension insurance scheme paid by the taxpayer for himself/herself and/or by a third party

(including the tax agent) on behalf of the taxpayer under a voluntary funded pension insurance scheme in the manner established by the legislation of the Republic of Armenia, shall be calculated at the rate of 10 percent, without considering the deductions stipulated by this Law.

4. For incomes received from royalties and lease of property, as well as sale of residential buildings, apartments thereof, and other spaces by individuals, except for individual entrepreneurs, who act as planners of residential (including multi-functional) buildings, facilities, residential houses in residential areas and complexes, 10 percent of the overall space of the building (without non-residential spaces of shared ownership), but no more than 500 m² of space, and the income tax on proceeds of sale of spaces exceeding the space of 4 residential houses (hereinafter referring to as non-taxable threshold) in residential areas (or complexes) shall be assessed at the rate of 10 percent without consideration of tax deductions stipulated in this Law. In addition, the non-taxable threshold shall apply at the mentioned amount to spaces of residential (including multifunctional) buildings, facilities or residential houses in residential areas (complexes) only once, irrespective of the date when various apartments in the building or residential houses are sold and the number of natural person planners and/or owners.

Within the meaning of this Law, a royalty shall be deemed to be the compensation payable for permits for using a piece of literature, art or scientific study, or using or obtaining the right to use any copyright, patent, trademark, design or model, plan, secret formula or process, programs for electronic calculation machines and databases or industrial, commercial, scientific equipment or accessing information on industrial, technical, organizational, commercial, scientific experience.

5. For interests, income tax shall be calculated at the rate of 10 percent, without considering the deductions stipulated by this Law.

6. The tax agent shall calculate the income tax on proceeds payable against purchase of property from natural persons at the rate of 10 percent, taking into account also the provisions of Articles 7 and 8 of this Law.

7. In cases when a written agreement is not executed as per Para 1, Clause 2, Article 12 of this Law or when a written civil-legal agreement is not executed with a natural person (along with indicating therein the requisite passport details and residential (registration) address in the

Republic of Armenia), the tax agent shall calculate and withhold the income tax on payable income at the rate of 11 percent without considering the deductions prescribed by this Law with the exception of cases when the amounts transferred to the taxpayer have been grounded by payment checks or brief invoices.

8. For individual entrepreneurs who are payers of the presumptive tax, the income tax shall be calculated at the rate of 3 percent on taxable income identified as per this Law.

Article 11. Rates of Income Tax for Foreign Citizens and Stateless Persons

1. When paying incomes to foreign citizens and stateless persons, the tax agent shall calculate the income tax in the general manner prescribed by Law, by using the following rate:
 - 1) For incomes receivable in the form of insurance fees, and freight charges, a 5 percent rate shall apply;
 - 2) For incomes receivable from royalties, interests, rentals from lease of property, asset appreciation and other passive incomes (other than income received in the form of freight charges), a 10 percent rate shall apply;
 - 3) For other incomes not specified in Clauses 1 and 2 of this Article and receivable from Armenian sources, the income tax shall be calculated on the identified taxable income under this Law at the rate set out in Article 10, Clause 1 of this Law.
2. The amounts withheld (levied) by the tax agent at the rates mentioned in this Article shall be treated as the final amount of income tax for foreign citizens and stateless persons in the Republic of Armenia, save for the cases when these persons have the status of a resident or have conducted business activities in the Republic of Armenia, taking into account the conditions set forth in Article 12, Clause 2, sub-clause 1 of this Law, in which case the income tax shall be calculated at the rate specified in Article 10, Clause 1 of this Law.

CHAPTER 4. MANNER OF CALCULATING AND PAYING

INCOME TAX, FILING OF INFORMATION

Article 12. Withholding Income Tax by the Tax Agent

1. Save for the cases specified in Clause 2 of this Article, when calculating incomes of taxpayers, the income tax shall be withheld (levied) by the tax agent.

Where organizations implementing projects under treaties signed and ratified on behalf of the Republic of Armenia are exempt from withholding income tax on incomes paid to individuals at the source of incomes, these organizations may, at their own discretion, act as tax agents on the basis of the declaration filed with the tax office, and perform withholding of tax on personal taxable income. In this case the tax agent shall withhold tax starting from the month of filing the declaration.

2. The tax agent shall not withhold (levy) any taxes if:

- 1) The paid incomes result from business activity (delivery of goods, performance of works and delivery of services), and a written civil-legal agreement has been signed with the tax agent and the Taxpayer Identification Number (TIN), passport details and residence address in the Republic of Armenia and number of state business registration certificate of the taxpayer are indicated therein, or
- 2) The incomes are payable to the notary.

Article 13. Manner of Calculation of Income Tax and Submission of Reports

1. Each month the tax agents shall calculate the income tax at the rates specified in Articles 10 and 11 of this Law along with deducting the amounts of benefits defined by the Law of the Republic of Armenia “On Temporary Incapacity Benefits”, as well as the funeral benefit payable in case of death of a hired employee. Furthermore, benefits defined in this Clause are considered as deducted starting the 20th day of the next month after the deduction is performed.

If the total amount of income tax calculated for the given month is not sufficient for paying the benefits established by this Article, the tax agent shall pay the benefits at

its own expense which shall be then reimbursed from the state budget within one month in the manner established by the Government of the Republic of Armenia.

2. On a monthly basis, by the 20th day of the next month, tax agents must submit exclusively electronically to the tax office a summary income tax return in the defined format which shall contain the following:
 - 1) personal data (first and last names, patronymic, residence (registration) address, social security card number) of the natural person receiving income from the given tax agent (except for those receiving only passive incomes), incomes calculated for these individuals, income tax withholdings, and for persons participating in the fully-funded pension system, also calculated and withheld fully-funded pension contributions, as well as other information identified in Article 7 of the Law “On Personified Record Keeping on Income Tax and Funded Contributions”;
 - 2) Brief information from the given tax agent about passive income calculated by the tax agent exclusively for the natural persons gaining passive incomes and the income tax withheld from these incomes,
3. In cases when no income tax withholdings are made (levied) at the source for incomes in compliance with the provisions of this Law and the Agreements concluded and ratified on behalf of the Republic of Armenia subject to be received by natural person not considered as an individual entrepreneur or a notary, then the natural person not considered as an individual entrepreneur or a notary shall calculate the income tax on monthly basis, which is reflected in the annual income statement submitted to the tax authority in the manner and timelines defined by Article 22 of this Law.
4. If tax agents independently discover any errors in income tax reports for previous reporting periods, then they may submit exclusively electronically the adjusted reports to the tax authorities based on which the tax liabilities for these periods shall be recalculated.

Article 14. Paying of Income Tax Amounts to the Budget

The income tax calculated in compliance with Article 13 of this Law shall be paid to the state budget no later than on the 20th day of the next month after assessing the incomes of natural persons.

Article 15. Provision of Statements of Information by Tax Authorities and Tax Agents

1. Based on the application of a non-resident, the tax authorities shall provide, in the format and manner established by the Government of the Republic of Armenia, the respective statement on tax amounts withheld from Armenian sources.

2. Upon the request of natural persons, tax agents must provide statements on calculated and paid incomes, withheld tax amounts, as well as funded pension contributions paid by the employer on behalf of its employee.

CHAPTER 5. MANNER OF CALCULATING AND PAYING INCOME TAX ON INCOMES RECEIVED FROM BUSINESS ACTIVITY

Article 16. Calculation of Incomes from Business Activity

When determining the gross income from business operations, the accrual basis of accounting shall be applied for legal entities in the manner prescribed by the Law of the Republic of Armenia “On Profit Tax”.

Article 17. Specifics of Determining the Tax Base

1. When determining the tax base of income tax on business activities, apart from incomes deducted under this Law, the gross income shall be deducted, based on the declaration on annual income filed by the natural person, by the amount of costs which are directly related to the incomes gained from business activities and execution of civil-legal contracts and are supported by appropriate documentation.

2. In particular, costs shall include:

- 1) material costs;
- 2) wages and salaries and payments made equal to wages and salaries;

3) voluntary funded pension contributions paid by the employer on behalf of its hired employee, at the maximum amount of 5% of the employee's salary;

4) amortization allowances;

5) rentals;

6) insurance premiums;

7) taxes not subject to refund (offsetting), duties and other mandatory fees;

8) interests on loans and other borrowings;

9) fees against guarantees, security, letters of credit and other bank services;

10) promotional costs;

11) representational costs;

12) sponsorship costs;

13) judicial costs;

14) travel costs;

15) indemnification of caused damage;

16) fines, penalties and other material sanctions, save for those fines, penalties and other material sanctions which are payable to the State or community budgets, as well as those charged against contributions to the funded pension system;

17) costs of audit, legal, other consulting, information and management services;

18) costs of factoring, trust (power of attorney related) operations;

19) understated costs for the preceding three years as identified during the reporting year.

3. Contributions made by the taxpayer to other persons' paid-in capital shall not be treated as costs.

4. In the event of conducting business operations, the norms laid down in the Profit Tax

Law shall apply to legal entities for the calculation of amortization allowances and other costs, costs which are not deductible from gross income, norms established by the Government of the Republic of Armenia for types of costs, performing cost deductions from the gross income, as well as losses incurred as a result of business operations during the reporting period.

5. The requirements for supporting documentation on costs shall be established by the Government of the Republic of Armenia.

Article 18. Calculating of the income tax amount

The taxpayer shall independently perform the final calculation of the actual income tax amount at the rates set out in Article 10, Clauses 1 and 7 of this Law and duly reflect it in the annual income declaration.

Article 19. Advance payments of income tax

1. Taxpayers earning income from business operations (other than the ones subject to presumptive taxation) in the course of the year shall make advance payments of income tax in the manner and timeframe envisaged in Clauses 2 through-8 of this Article.

2. Advance payments shall be made on a quarterly basis - by the 15th day of the last month of each quarter - at the one-sixth amount of the actual income tax amount paid for the previous year. In case the taxpayer fails to make advance payments in a timely manner, and in other legally identified cases, the tax authorities shall set forth claims in relation to these advance and fines thereof as prescribed by law.

3. The taxpayer who is a newly opened business shall be entitled to not make advance payments of income tax until June 15 of the next year by giving an notice to the tax authorities.

4. If the taxpayer has incurred losses during the previous year, or the amount of income tax for the previous year has not exceeded AMD 500,000 (five hundred thousand) or the taxpayer has not been acting as a duly registered payer of VAT, then the taxpayer shall have the right not to make advance payments of income tax after filing the annual income report. Before calculating the actual amount of income tax for the previous year not later than by March 15, the taxpayer shall make the first advance payment of income tax at an amount which shall not be less than the last advance payment effected for the previous year.

5. Where the tax base for the year in question is anticipated by the taxpayer to be lower than the income compared to the previous year, the taxpayer shall determine independently the quarterly size of the advance payment. If the total annual amount of advance payments is less than $\frac{2}{3}$ of the actual income tax for the year in question, then the taxpayer shall pay a fine against the difference between $\frac{1}{6}$ amount of the actual income tax and actual advance payment made for the quarter in question, from the day of making the advance payment through the day when the amount of actual income tax becomes known to the tax office (day of filing the annual income return statement).

6. After the completion of the reporting year, the taxpayer shall assess the amount of income tax based on the calculated tax base, along with offsetting it against the amounts of advance payments made for the reporting year in question.

7. If the amount of actual income tax for the reporting year is less than the total amount of advance payments made for the same year, then the difference shall be subject to refund in conformity with Article 33 of the Law of the Republic of Armenia “On Taxes”. In such a case the calculation of fines imposed against the amounts of advance payments shall be ceased on the day when the amount of actual income tax becomes known to the tax office (when the annual income return is filed) but no later than on May 1. The amounts of fines calculated against advance payments shall not be subject to recalculation or refund.

8. If the aggregate amount of advance payments is less than the amount of actual income tax for the reporting year in question, then only the income tax shall be recalculated, and the taxpayer shall be obliged to pay the resulting difference to the State budget. In this case the calculation of fines on advance payments shall cease on the day when the amount of income tax becomes known to the tax office (the annual income return statement is filed). For late payment of income tax, from May 1 fines shall accrue on the outstanding amount of the income tax at the amount set forth in Article 23 of the Law “On Taxes”.

9. With respect to activities subject to taxation under the presumptive tax regime, taxpayers shall make income tax advance payments at the amount of 5000 drams on a monthly basis by the 20th day of the following month.

Article 20. Minimal amount of income tax

1. Where the amount of advance payment assessed for each quarter defined as prescribed in Article 19 of this Law is less than 1 percent of the amount specified in Clause 3 of this Article, the taxpayer (with the exception of activities subject to taxation under the presumptive tax regime) shall effect quarterly payments of the minimal income tax.

2. The minimal income tax shall be payable at the rate of 1 percent of the amount assessed in line with Clause 3 of this Article.

3. The minimal income tax shall be calculated against the income calculated on the accrual basis which is generated during the previous quarter from sale of goods (other than fixed assets, as well as securities and exchange commodities), products (other than the ones specified in Article 8 of this Law) and delivery of services - and which does not include paid indirect taxes on the earned income - and against the difference between the amount which is less than 50 percent of the income for the same period and amortization allowances for fixed assets, save for cases envisaged in this Clause.

Taxpayers who are duly considered as non-VAT payers in the current year shall, during the VAT exemption period, calculate the minimum income tax on the income duly calculated per this Clause by excluding amortization allowances for fixed assets in the calculation.

4. For taxpayers who use the tariffs set out by the government or its authorized body, as well as individual entrepreneurs who deliver services in the areas of health and education, or are involved in printing and distribution of newspapers and magazines, cutting of precious stones, as well as in international freight forwarding operations, the Government of the Republic of Armenia may establish other deductions for the tax base of the minimal income tax.

5. The positive difference between the aggregate annual amount of minimal income tax and actual income tax for the reporting period shall be deducted from the income tax for the coming years.

Article 21. Specifics of Paying Income Tax by Individual Entrepreneurs Who Are in Insolvency Process

In conformity with the legislation on insolvency of individual entrepreneurs, payments of income tax shall be suspended from the day when the court decision on recognizing the taxpayer

as insolvent becomes effective until the time when the claims from the State budget are satisfied in accordance with the established sequence of satisfying creditors' claims.

CHAPTER 6.

CALCULATION OF ANNUAL INCOME AND PAYMENT OF TAX AMOUNT

Article 22. Manner and Timelines of Filing Annual Income Calculations

1. Taxpayers who are individuals shall file annual income calculations with the tax office exclusively in an electronic format no later than on April 15 of the year following the reporting year, except for the cases specified in Clause 2 of this Article.

2. The filing of an annual income return is not mandatory for natural persons if during the reporting year they have received or should have received:

- 1) Incomes specified exclusively in Articles 6, 7 and 8 of this Law, or;
- 2) Only incomes in respect of which the responsibility for calculating, withholding (levying) the income tax and paying it to the budget rests with the tax agent.

3. When filing annual income calculations in the manner as established by this Article, natural persons shall disclose all incomes receivable during the fiscal year, irrespective of the provisions specified in Clause 2 of this Article.

4. Incomes of minors shall be declared by their parents (guardians).

5. Where the taxpayer terminates his or her operations (source of income) before the completion of the fiscal year, he or she shall file the annual income calculations in the manner and within the timeframe laid down in this Article.

6. Failure to file annual income calculations shall not exempt the taxpayer from performing its tax liabilities in conformity with this Law and other legal acts of the Republic of Armenia.

7. Within one calendar year after the reporting period the taxpayers shall be entitled to make adjustments to the data disclosed in their annual income calculations submitted for the reporting period.

Article 23. Final Assessment of the Tax Based on Annual Income Calculations and Timing for Payment Thereof

1. The final assessment of income tax shall be performed based on the annual income calculations, taking into consideration the deductions laid down in this Law.

2. Based on the data of the annual income return, the payer of income tax shall pay the amount of the income tax to the State budget for the fiscal year in question no later than on May 1 of the year following the given tax year.

3. Excess amounts of income tax paid by the taxpayer to the budget (also through the tax agent) based on the annual income calculations shall be subject to refund in the manner and within the timeframe specified by the tax legislation.

Article 24. Excluding Double Taxation

1. The amounts of income received by residents outside the Republic of Armenia shall be included in the declared total annual income and taken into account when defining the size of tax.

2. The income tax paid by (levied from) residents of Republic of Armenia shall be deducted at the amount of the tax withheld in foreign states in line with their legislation, other than the amount of tax withheld in foreign states on incomes which are deductible from gross income under the legislation of the Republic of Armenia. Moreover, the amount of deductible (offset) tax may not exceed the amount of tax on incomes received in foreign states which is payable in the Republic of Armenia in conformity with the provisions of this Law.

CHAPTER 7.

CLOSING PROVISIONS

Article 25. Liability of Natural Persons and Tax Agents in Case of Breaching this Law

1. Taxpayers and tax agents shall be liable for infringing this Law in the manner prescribed by the Law of the Republic of Armenia.

2. In conformity with the provisions of this Law, where the income tax is not withheld (levied) at the source, the tax liability (including the fines duly calculated in the manner

established by the legislation of the Republic of Armenia for failure to pay in the income tax to the budget within the defined timelines) shall be borne by the tax agent.

3. If the tax agent fails to timely withhold the amounts of tax on calculated incomes of natural persons (or withholds less than the required tax amount) in line with the provisions of this Law, then these amounts of tax may be withheld from natural persons in the manner prescribed by the legislation of the Republic of Armenia no more than for the last three months, and the amounts withheld (levied) in excess of the established size shall be offset against forthcoming withholdings or refunded within one month starting from the day when the excessive amount is identified for the next three calendar years after the excess withholding.

4. In case of overstating the losses calculated in the manner established by this Law in the annual income return filed with the tax authorities, a penalty shall be imposed on the individual entrepreneur at 26 percent of the amount of overstated losses.

5. In case of detecting any cases of failure to document the hiring of an employee in the manner established by the legislation of the Republic of Armenia (i.e. where the written employment order and/or written employment agreement is missing), the employer shall calculate and pay income tax at the amount of 60000 drams for the concerned (unregistered) wage earner during the given month (when this irregularity is detected). This provision shall not apply to cases when the legally required employment agreement ledgers for wage earners – and for government agencies and local self-governance bodies, the book for enrolment and dismissal of employees – are not maintained or are maintained in violation with the prescribed rules (in such cases the income tax shall be calculated (recalculated) in the generally prescribed manner).

6. From the moment of effectiveness of this Law the employer shall assume at its own expense an additional liability which shall be equal to the full amount of income tax withheld and paid from the calculated salaries of hired employees for each month of the year when this Law comes into force, if after the enactment of this Law the withholding of income tax from hired employees has led to a reduction of the amount payable to them based on their ‘after-taxes’ salaries which is estimated in line with the procedures set forth by the Government of the Republic of Armenia.

The responsibility stipulated herein shall not apply to cases where for the concerned position the hired employee is replaced by another hired employee not employed by the concerned employer.

Article 26. Unification of Reports and Information

1. Data contained in the summary income tax calculations as defined in Article 13 of this Law may be incorporated in the personified report as mentioned in Article 1 of the Law of the Republic of Armenia “On Personified Record Keeping on Income Tax and Funded Contributions”.
2. The mentioned data shall be submitted to the authorized body electronically through application of e-signature.

27. Regulations (Agency Normative Acts) on Application of the Law

Regulations (agency normative acts) on application of this Law shall be adopted by the Tax Authority by agreeing them with the Ministry of Finance of the Republic of Armenia.

Article 28. Entry into Force of the Law

This Law shall become effective from January 1, 2013.

From the date of effectiveness of this Law, the Law (HO-183) on Income Tax, enforced on December 27, 1997, and the Law (HO-179) on Mandatory Social Security Contributions, enforced on December 26, 1997, shall be revoked.

Article 29. Transitional Provisions

1. Liabilities originated during 2013 or earlier in relation to the income tax or mandatory social contributions shall not be treated as terminated after January 1, 2013 and these must be honored in line with the procedures and within the timeframe laid down by the Law of the Republic of Armenia ”On Income Tax” and the Law of the Republic of Armenia ”On Mandatory Social Contributions”.

2. For the 1st quarter of 2013 the advance payments of income tax shall be calculated at an amount which shall be:

1) no less than the last advance income tax payment for 2012 (if by March 15, 2013 the amount of income tax for 2012 has not been calculated by the taxpayer yet), or

2) equal to 1/6 of the amount of income tax for 2012 (if by March 15, 2013 the amount of income tax for 2012 has been calculated by the taxpayer).

For the 1st quarter of 2013 the advance payments of income tax shall be effected by March 15, 2013.