

Special tax system for business activities in borderline areas of Armenia

1.1 General Description

Within the framework of the Law on Tax Exemption for activities in borderline areas of Armenia, companies and individual entrepreneurs (IE) can enjoy the privilege of tax exemption if they operate in the selected borderline villages or cities:

Name of the Province	Village or City
Ararat	Yeraskh, Paruyr Sevak villages
Vayots Dzor	Khachik, Khndzorut, Sers, Nor Aznaberd, Bardruni villages
Gegharkunik	Chambarak town, Vahan village
Tavush	Berd city, Nerkin Karmir aghbyur, Voskevan, Choratan, Koghb, Vazashen, Berkaber, Chinari, Artsvaber, Tsaghkavan (Ijjan region), Mosesgegh, Dovegh, Paravakar, Berdavan, Barekamavan, Koti, Baghanis, Sarigarg, Ayrigar, Sarigor , Aygehovit, Voskepar, Verin Karmir aghbyur, Azatamut villages

To be eligible for the tax exemption one of the following business activities should be carried out in one of the above-mentioned border communities:

1. Retail sale (purchase-sale) to the population through shops, places of sale;
2. Organization of manufacturing, regardless of where the finished product is then sold, in border communities or outside them;
3. Public catering (restaurants, cafes, etc), moreover, the activities carried out in the field are considered to be the organization of consumption of culinary products.

*Note: It is **not necessary to be registered in the administrative borders** of the border community in order **to enjoy the relevant tax privileges** within the framework of this law. Whether or not you have registered as a company /individual entrepreneur in the border community, what is important is that it operates in the border community. For this, when registering your company under the question of “Place of operation” mention one of the borderline community. For example, it is possible to register as a company/ individual entrepreneur in Yerevan and have main office in Yerevan, but during registration mention that it will operate its main business activities, e.g. manufacturing in the borderline city of Berd, which will automatically mean you can enjoy the respective tax exemptions.*

1.2 Tax liabilities

All the companies/individual entrepreneurs that carry out their activities within the administrative borders of the above mentioned borderline villages and cities are exempt from a range of state business taxes. More details are presented in the table below.

	Value Added Tax (VAT)	Profit Tax	Excise tax	Personal Income Tax ¹	Sales Tax
LLC/CJSC/OJSC	Sale of goods and provision of services are VAT exempt in all cases, except: a. Retail sales (purchase-sale) through trade facilities, activities in public catering to the population if the annual sales are > 115 mln. from AMD	Exempt in all cases, except: a. Retail sales (purchase-sale) through trade facilities, activities in public catering to the population if the annual sales are > 115 mln. from AMD b. production of goods subject to excise tax ² In case of a, b the profit tax is paid in the amount of 18% from annual profits	Paid on a general basis ²	In the case of an LLC/CJSC/OJSC, 5% dividend tax ³ In case of having a hired/registered employee of an individual entrepreneur (IE) or LLC/CJSC/OJSC (including IE personally, if the latter is a registered employee and receives a salary) - 21% from monthly salary	Exempt
IE	a. Retail sales (purchase-sale) through trade facilities, activities in public catering to the population if the annual sales are > 115 mln. from AMD b. production of goods subject to excise tax ²				

¹ Personal income tax does not refer to the business, but to the employees involved in that business. The economic entity, as a tax agent, is obliged to calculate and pay the personal income tax of its employees.

² One will be subject to excise tax if he either produce or import one of the following products: Ethyl Alcohol, Alcoholic beverages, Vodka made from fruits (or) berries, Cognac, brandy and other alcoholic infusions, Whiskey, rum and other alcoholic infusions, Beer, Grape wines, Vermouth or other wines, Other fermented beverages (apple cider, peru (pear cider), honey beverage), except fruit, berry and fruit wines and wine material, Fruit or berry wines, Tobacco products, Cigars, Cigarette, Industrial tobacco substitutes, Lubricating oil, Gasoline, petroleum, Diesel fuel, Crude oil petroleum products, Petroleum gases, Compressed natural gas. The amount of the tax is defined by Article 88 of the RA Tax Code: <https://bit.ly/38Y2845>

³ Suppose the shares of the LLC belong to you and your friend in a ratio of 60% and 40%. Your profit for the month was 50,000 AMD. According to your share, 30,000 AMD of profit is distributed to you, 20,000 AMD to your friend. 5% Dividend Tax refers to those amounts. As a tax agent, you will need to pay 1500 AMD (5% of the 30,000 AMD dividend) to the state budget, while 1000 AMD is paid for your friend (5% of the 20,000 AMD dividend)

	In case of a, b the VAT tax is paid in the amount of 20% from sales				
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	Social payment	Army Insurance Fund Payments
LLC/CJ SC/OJS C	In case the monthly salary is <500.000 AMD, 4.5% of registered employees monthly salaries, In case the monthly salary is 500.000-1.020.000 AMD, then difference between 10% of the monthly salary and 32.500 AMD In case the monthly salary is >1.020.000 AMD, 69.500 AMD per month per employee ⁴	Depending on the salary amount the army insurance fund payments per month per employee are: In case the monthly salary is <100.000 AMD, then monthly army payment is 1500 AMD, In case the monthly salary is 100.001-200.000 AMD, then monthly army payment is 3000 AMD In case the monthly salary is 200.001-500.000 AMD, then monthly army payment is 5500 AMD In case the monthly salary is 500.001-1.000.000 AMD, then monthly army payment is 8500 AMD In case the monthly salary is >1.000.000, then monthly army payment is 15.000 AMD
IE	The IE pays for himself a monthly fixed payment of 5000 AMD ⁴ If IE has registered employees, in case the monthly salary is <500.000 AMD, 4.5% of registered employees monthly salaries, In case the monthly salary is 500.000-1.020.000 AMD, then difference between 10% of the monthly salary and 32.500 AMD In case the monthly salary is >1.020.000 AMD, 69.500 AMD per month per employee ⁵	IE operating in a borderline village or city pays for himself annually 18.000 AMD. If IE has hired/registered employees, depending on the salary amount the army insurance fund payments per month per employee are: In case the monthly salary is <100000 AMD, then monthly army payment is 1500 AMD, In case the monthly salary is 100001-200000 AMD, then monthly army payment is 3000 AMD In case the monthly salary is 200001-500000 AMD, then monthly army payment is 5500 AMD In case the monthly salary is 500001-1000000 AMD, then monthly army payment is 8500 AMD In case the monthly salary is >1.000.000, then monthly army payment is 15.000 AMD

1.3 Application procedure for the given tax regime

One doesn't need to apply to be able to work under the borderline special tax regime. It is enough to mention during the registration that the location of your business operations is one of the above-

⁴ If born after January 1, 1974. If born until 1974, January 1 no social payment is required.

⁵ If born after January 1, 1974. If born until 1974, January 1 no social payment is required.

mentioned borderline villages or cities. And in case your business activity is in line with the eligibility criteria presented in previous sections, you can automatically work under the special borderline tax regime.

Note: If, in the absence of the borderline tax regime, you would have had to work under the turnover/sales tax regime, you would need to apply for turnover/sales tax regime first to qualify for the special borderline tax exemption.

Additional important points:

a. If the company operates in a non-border community but decides to start production simultaneously in a border community on the list, then it should keep a separate record of income and expenses for activities in the border community. The latter can reduce the company's gross income (total operating income).

b. If it is not possible to keep separate records of some types of operating expenses in the border community, the weighting principle applies. For example, if the total income from all activities amounted to 200,000,000 AMD, of which 40% fell to the border community and 60% to the non-border community, and the total transportation costs amounted to 1,000,000 AMD, then the transportation costs related to the activities in the border community will account for 400,000 AMD.

1.4 Tax Reporting and Deadlines of Tax Payments

Tax Reporting in Armenia is available only online through the State Revenue Committee Electronic platform: <https://file-online.taxservice.am> . Once registered in the system, in case your business operates under special borderline tax regime, there is a range of tax reports you need to submit from the section “Reports”:

Name	Deadline
189. Personal income tax calculations	Until the 20th of the month following each reporting month

In case of being a turnover taxpaying individual entrepreneur: 240. Calculation of a resident profit tax	Until April 20th of the following tax year
In case of being a turnover taxpaying individual entrepreneur 244. Calculation of social payment	
In case of being a turnover taxpayer 232. Calculation ⁶ of turnover tax ⁷	Until the 20th of the month following each reporting quarter

In case you are a excise tax⁸ payer, then by the 20th of the month following each reporting month, you must submit “203. Value Added Tax - Unified Calculation of Excise Tax ” report, completing only Section 2 of the report.

Tax payments must be made following the following schedule:

Name	Deadline	Account Number
Personal Income Tax payment	Until the 20th of the month following each reporting month	900008000490
Social payment for employees		
In case of being turnover taxpayer individual entrepreneur social payment for yourself	Until April 20th of the following tax year	
In case of being turnover taxpayer individual entrepreneur annual profit tax for yourself		
Army Insurance Fund monthly payments per employee	Until the 20th of the month following each reporting quarter	

⁶ In the second part of this report you must fill in the code of your activity type, section, group, class and subclass. To understand the latter, you need to download the following document: <http://www.arlis.am/Annexes/4/GT30.1-13page1730-2124ink1392.doc>

⁷ Only one of lines 19-21 is filled in the report, according to the implemented activities.

⁸ One will be subject to excise tax if he either produce or import one of the following products: Ethyl Alcohol, Alcoholic beverages, Vodka made from fruits (or) berries, Cognac, brandy and other alcoholic infusions, Whiskey, rum and other alcoholic infusions, Beer, Grape wines, Vermouth or other wines, Other fermented beverages (apple cider, peru (pear cider), honey beverage), except fruit, berry and fruit wines and wine material, Fruit or berry wines, Tobacco products, Cigars, Cigarette, Industrial tobacco substitutes, Lubricating oil, Gasoline, petroleum, Diesel fuel, Crude oil petroleum products, Petroleum gases, Compressed natural gas. The amount of the tax is defined by Article 88 of the RA Tax Code: <https://bit.ly/38Y2845>

In case of being individual entrepreneur annual 18.000 AMD Army insurance Fund payment for yourself	Until February 1 st of the year following the tax year	9000050011186
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In case of being excise tax payer, the payments and respective account numbers vary depending on the goods type:

Product	Account Number
Beer produced in Armenia	900005003026
Grape and other wines produced in Armenia	900005003166
Sparkling wine and wine materials produced in Armenia	900005003174
Vermouth and other grape wines produced in Armenia containing aromatic extracts	900005003182
Other fermented beverages produced in Armenia (apple cider, pear (pear cider), honey drink)	900005003190
Ethylene alcohol produced in Armenia	900005003208
Alcoholic beverages produced in Armenia	900005003216
Infusions obtained from the distillation of grape wine produced in Armenia, brandy	900005003224
Vodka produced in Armenia	900005003232
Liqueurs and fruit vodka produced in Armenia	900005003240
Champagne produced in Armenia	900005032819
Industrial tobacco substitutes produced in Armenia	900005003257
Engine oils produced in Armenia	900005032918
Other excise goods produced in Armenia	900005003018
Goods imported from Eurasian Economic Union (EEU) member states	900008000490
Goods imported from non-EEU countries	It is specified during the import of goods at the customs check point