

## Tax benefits for start-up IT companies

### 1.1 General Description

Within the framework of the “RA Law on State Support in sector of Information Technologies”, certified companies operating in the IT sector can be granted a number of tax privileges, if the latter are engaged in activities defined by law and meet a number of requirements. Tax privileges can be extended to IT companies who are engaged in one of the following activities<sup>1</sup>:

- a. software development,
- b. consulting activities in the field of computer technologies;
- c. data processing, information distribution on the network and related activities,
- d. web-page development,
- e. implementation of educational and research programs in the field of information technologies,
- f. electronic systems design, testing, production, computer animation, modeling, as well as integrated circuit design and testing.

The IT start-ups should meet the following criteria:

- 1) be established for the purpose of carrying out activities under the above-mentioned types of activities
- 2) not be created as a result of the reorganization of another company
- 3) the number of employees should not exceed 30
- 4) none of the shareholders in the applicant company should be a shareholder of the liquidated IT company or an individual entrepreneur
- 5) none of the shareholders in the applicant company should be a shareholder or individual entrepreneur in another IT company that already enjoys the IT tax privileges,
- 6) none of the shareholders in the applicant company or the individual entrepreneur should not be a shareholder of another company that is in the process of bankruptcy

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<sup>1</sup> <http://www.arlis.am/DocumentView.aspx?docID=95017>

7) none of the shareholders of the applicant company should be a shareholder or individual entrepreneurs of another IT company in the past 3 years at the moment of application

8) applicant can't be an individual entrepreneur who implemented IT activities and terminated his activities in the past 3 years

9) if 20% or more share of the applicant company belongs to another company or if 20% or more share in the applicant company belongs to a person who holds 20% or more share in another company, the applicant is not eligible

10) can't sell the results of their work/provide services to another IT company in Armenia, except the educational programs in technologies

## 1.2 Tax Obligations

The IT tax privileges imply tax exemption up until 2022, December 31, more details are presented in the table below:

	Value Added Tax (VAT)	Profit Tax	Personal Income Tax <sup>2</sup>	Turnover Tax
LLC/CJSC/OJSC	Paid on general principles in the amount of 20% from sales	Exempt	In case of LLC/CJSC/OJSC 5% dividend tax  In case of having a hired/registered employee by an individual entrepreneur or LLC / CJSC / OJSC 10% of monthly salary	In case you are turnover tax payer, it is paid based on the general principles
IE	Paid on general principles in the amount of 20% from sales	Exempt	In case of having a hired/registered employee by an individual entrepreneur or LLC / CJSC / OJSC (including the individual An entrepreneur himself, if the latter is a registered employee and receives a salary) 10% of monthly salary	

<sup>2</sup> 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 income tax of its employees.

	Social Payment	Army Insurance Fund
LLC/CJSC/OJSC	<p>In case the monthly salary is &lt;500.000 AMD, 4.5% of registered employees monthly salaries,</p> <p>In case the monthly salary is 500.000-1.020.000 AMD, then difference between 10% of the monthly salary and 32.500 AMD</p> <p>In case the monthly salary is &gt;1.020.000 AMD, 69.500 AMD per month per employee<sup>3</sup></p>	<p>Depending on the salary amount the army insurance fund payments per month per employee are:</p> <p>In case the monthly salary is &lt;100.000 AMD, then monthly army payment is 1500 AMD,</p> <p>In case the monthly salary is 100.001-200.000 AMD, then monthly army payment is 3000 AMD</p> <p>In case the monthly salary is 200.001-500.000 AMD, then monthly army payment is 5500 AMD</p> <p>In case the monthly salary is 500.001-1.000.000 AMD, then monthly army payment is 8500 AMD</p> <p>In case the monthly salary is &gt;1.000.000, then monthly army payment is 15.000 AMD</p>
IE	<p>Individual entrepreneur operating under the turnover tax system pays a monthly accumulative payment of 5000 AMD</p> <p>If IE has registered employees:</p> <p>In case the monthly salary is &lt;500.000 AMD, 4.5% of registered employees monthly salaries,</p> <p>In case the monthly salary is 500.000-1.020.000 AMD, then difference between 10% of the monthly salary and 32.500 AMD</p> <p>In case the monthly salary is &gt;1.020.000 AMD, 69.500 AMD per month per employee</p>	<p>IE operating under IT tax privileges 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:</p> <p>In case the monthly salary is &lt;100.000 AMD, then monthly army payment is 1500 AMD,</p> <p>In case the monthly salary is 100.001-200.000 AMD, then monthly army payment is 3000 AMD</p> <p>In case the monthly salary is 200.001-500.000 AMD, then monthly army payment is 5500 AMD</p> <p>In case the monthly salary is 500.001-1.000.000 AMD, then monthly army payment is 8500 AMD</p> <p>In case the monthly salary is &gt;1.000.000, then monthly army payment is 15.000 AMD</p>

### [1.3 Application procedure for the given tax regime](#)

In order to receive tax breaks, the IT company or the Individual Entrepreneur must submit the following documents to the RA Ministry of High Technological Industry by paper or electronic form ([http://hti.am/main.php?lang=1&page\\_id=719](http://hti.am/main.php?lang=1&page_id=719)) within 3 months from the moment of registration or every year January 1<sup>st</sup> to February 20<sup>th</sup> :

#### 1. Application

<sup>3</sup> Only in case you are born on or after 1974 January 1<sup>st</sup>.

2. Inquiry to work under IT tax privileges
3. Announcement on types of activities
4. Statement on the legal status of a legal entity
5. Reference on the number of employees, titles of positions, names of employees, surnames
6. Certificate of participation in the statutory capital
7. Statement on indirect participation in the statutory capital of the certified person defined by law

In case of electronic submission of applications, it is necessary to carry out the following steps:

1. Download the application forms
2. Fill in the application form
3. Convert the completed documents to PDF format
4. Sign applications in PDF format with electronic signature
5. Submit applications to [info@mtcit.am](mailto:info@mtcit.am).

*Clarification. Indirect participation is the participation in the statutory capital of a legal entity, in which case:*

- a. The participant does not have a participation in the statutory capital of the legal entity (shares, stocks) or has a non-voting participation, but with that participation given his business reputation and authority has the opportunity to directly or indirectly predetermine the decisions of the governing bodies of the legal entity or to predetermine the directions, spheres of activity of the given legal entity,*
- b. The participant has no participation in the statutory capital of the legal entity (shares, stocks) or non-voting participation, but has the opportunity to predetermine the decisions of the governing bodies of the legal entity, significantly influence their decision-making (application) or predetermine the directions, areas of activity of the legal entity by virtue of the right of claim against the given legal entity,*
- c. The participant has a 50%-more share of the voting shares in the authorized capital of the legal entity that is a shareholder in the authorized capital of the applicant legal entity;*

Within 3 working days from the day of receiving the application, it is examined and in case of detection of defects, you will be notified in writing within 2 working days. You can eliminate the detected defects within 5 working days and submit the documents in writing to the Secretariat. The decision on granting or denying the IT tax privileges will be made within 30 days after

submitting the complete package. You will be provided with a certificate on tax privileges. After the decision is made, the certificate is issued to the company within 5 days.

**Important:** *In case of any change of the information submitted with the documents attached to this application, it is necessary to inform the RA Ministry of High-Tech Industry in writing within 20 days.*

**Note:** There may be a case when you are an IT company working under turnover regime and you want to also enjoy the IT tax privileges. In this case, you will make all the payments mentioned in the turnover tax section, but once you enjoy the IT tax privileges you will pay already reduced 10% rate for personal income tax.

#### 1.4 Tax Reporting and Deadlines of Tax Payments

Name	Deadline
1. Statement on satisfying the requirements of certified persons according to N7 Form <a href="https://www.arlis.am/DocumentView.aspx?DocID=102563">https://www.arlis.am/DocumentView.aspx?DocID=102563</a>	from November 1 to December 1 of each financial year
2. Report on results of the implemented activities according to Annex 6. <a href="https://www.arlis.am/DocumentView.aspx?docid=102563">https://www.arlis.am/DocumentView.aspx?docid=102563</a>	until the 20th of the month following each semester

The above reports can be submitted to the Ministry of High-Tech Industry electronically by e-mail or e-carrier, if there is an electronic signature. IT companies and individual entrepreneurs who enjoy the IT tax privileges, as tax agents, are exempt from the obligation to calculate, withhold and transfer taxes to the state budget, except for the reports on personal income tax of employees, social payments and VAT.

The latter can be found in your personal page “Reports” section of the State Revenue Committee Electronic system here: <https://file-online.taxservice.am>.

Name

Deadline

189. Personal income tax calculations	Until the 20th of the month following each reporting month
206. Calculation of VAT and excise tax	

Tax payments must be made in line with 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	
VAT payment	Until the 20th of the month following each reporting month	
Army Insurance Fund monthly payments per employee	Until the 20th of the month following each reporting month	
		9000050011186

In case of being individual entrepreneur annual 18.000 AMD Army insurance Fund payment for yourself	Until February 1 <sup>st</sup> of the year following the tax year	
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**Note.** If you are a turnover taxpayer operating in the IT sector who has received IT tax privileges, you will need to submit all turnover taxpayer reports according to the relevant schedule, as well as the first two reports in this section electronically to the Ministry of High-tech Industry.