

## Turnover/Sales Tax Regime

### 1.1 General Description

Turnover tax is a state tax paid to the budget that replaces VAT and/or profit tax. The turnover tax is based on the turnover sales of goods and/or provision of services.

A resident company, individual entrepreneur and a notary may be considered a turnover taxpayer if:

- 1) During the previous tax year, the turnover for all types of activities did not exceed 115,000,000 AMD, except for companies and individual entrepreneurs operating in the field of public catering<sup>1</sup>
- 2) Do not operate as banks, credit organizations, insurance companies, investment companies, specialized participants in the securities market, pawnshops, foreign exchange trading, foreign exchange dealers, investment funds, fund managers, payroll organizations, casinos, audit companies
- 3) did not commit the third violation of the cash register operation rules during the tax year
- 4) are not parties to a joint venture agreement or a commission contract for an agency<sup>2</sup>
- 5) 20% or more share of the statutory capital of the company doesn't belong to another company, individual entrepreneur or notary<sup>3</sup>

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<sup>1</sup> If you are a public catering company or individual entrepreneur, you can be considered a turnover taxpayer, even if you have exceeded the threshold of 115,000,000 AMD.

<sup>2</sup> For example, suppose Company A enters into a joint venture agreement with Company B, according to which Company A is engaged in the production of tea, and Company B is engaged in tea packaging, branding and sales. In this case, A and B companies can not be considered turnover taxpayers.

<sup>3</sup> Suppose you have registered as Jack Nilson Individual Entrepreneur, at the same time you have opened Wood LLC with your friends, where you have 35% of the company. In this case, neither Jack Nilson Individual Entrepreneur nor Wood LLC can operate under turnover/sales tax regime. It should be noted that if Jack Nilson IE submits an announcement on termination of activity to the tax body, Wood LLC may be considered to work under turnover/sales tax regime from the day following the submission of the announcement. The same principle will be applied to Jack Nilson IE in case of termination of Wood LLC.

6) 20% or more share of the company's statutory (share) capital does not belong to a natural person who also owns 20% or more share of another company's statutory (share) capital<sup>4</sup>

## 1.2 Tax Obligations

The amount of turnover tax is calculated as a percentage of annual turnover based on the rates in the table below.

Type of Activity	Rate
1. Income from trading (purchase and sale) activities, except for income from trading (purchase and sale) of secondary raw materials included in the list established by the Government and sales of real estate	5%
2. Income from trading (purchase and sale) activities of secondary raw materials included in the list established by the Government <sup>5</sup>	1.5%
3. Income from sales of newspapers by editorial offices	1.5%
4. Income from production/manufacturing activities	3.5%
5. Rental fee, interest, royalties, income from sale of real estate	10%
6. Income from notary activities	10%
7. Income from lottery activities	25%
8. Income from public catering activities <sup>6</sup>	6%
9. Income from sales of other assets, as well as income from other activities, which is not included in the "Public catering" section of the economic classifier used by taxpayers operating in the field of public catering in the Republic of Armenia <sup>7</sup>	20%
10. Income from other activities or sales of other assets	5%

<sup>4</sup> Suppose Jack Nilson has a 30% share in ConstructNOW LLC and a 40% share in ProLife LLC, then neither ConstructNOW nor ProLife LLC can work under turnover tax regime. The latter will be possible only if one of the companies submits a statement of termination to the tax authority.

<sup>5</sup> Waste paper and paperboard, scrap of non-ferrous metals, wastes of polymeric materials, scrap and waste of glassware, including glass containers in use, textile wastes, wastes of mineral and synthetic oils, scrap and waste of electronic equipment and parts, construction waste, wood waste, rubber waste

<sup>6</sup> Fourchette services are not part of the catering industry. They are included in "Other Services" and are taxed at a rate of 5%.

<sup>7</sup> For example, as an LLC, you rent an area where you sell food (public catering) in one part and souvenirs (trade) in the other part. You have to make a separate account for the sale of souvenirs and the current rate will be 20%, a separate account for the sale of food, where the rate will be 6%.

If you are going to do business in trading (purchase and sell) or catering (points 1 and 8 in the table), your turnover tax may be reduced.

#### Reductions. Trading (purchase and sell) activities

4% of the sum of the costs of goods purchased in the Republic of Armenia for the purpose of direct sale, as well as the costs of goods imported into the Republic of Armenia (customs value + customs duty + VAT of the goods mentioned in the import customs declaration) may be deducted from the turnover tax. The amount of turnover tax after deduction, however, may not be less than 1.5% of turnover. If, after deductions, the amount of turnover tax is less than 1.5% of the turnover, the deduction is made to the extent that the amount of turnover tax is 1.5% of the turnover, and the difference can be transferred to the next quarter. Understand how the reduction mechanism works with the examples below.

**Example 1.** You trade (purchase and sell) locally produced and China imported toys in Armenia. During the quarter, you bought toys worth 2,000,000 AMD from the local market for resale, and imported 6,000,000 AMD (= customs value + customs duty + VAT) from China. Accommodation expenses for China amounted to 650,000 AMD. The quarterly turnover (the amount received from the sale of toys) amounted to 10,000,000 AMD. Thus, taking into account the 5% turnover tax rate for your activity, the amount subject to turnover tax will be AMD 500,000 ( $0,05 * 10,000,000$ ). The amount of 500,000 AMD turnover tax can be reduced by 6,000,000 (costs for goods imported to Armenia) + 2,000,000 (costs for goods purchased in Armenia)\*4% =  $(2,000,000 + 6,000,000)^8 * 0,04 = 320,000$  AMD. The final amount of turnover tax to be paid will be  $500,000 - 320,000 = 180,000$  AMD ( $> 150,000 = 0,015 * 10,000,000$ ).

**Example 2.** You buy and sell household goods. You imported from Germany 9,250,000 AMD (=customs value + customs duty + VAT) worth goods. The turnover for the quarter (the amount received from the sale of goods) was 10,000,000 AMD. Accommodation expenses for Germany were 450,000 AMD. Thus, taking into account the 5% turnover tax rate for your activity, the amount subject to turnover tax will be 500,000 AMD ( $0,05 * 10,000,000$ ). 500,000 AMD is possible

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<sup>8</sup> The sum of expenses does not include travel expenses to China, as the latter is not an expense for goods imported to Armenia for direct sale.

to reduce by 9,250,000 AMD<sup>9</sup> (Expenditures on goods imported to Armenia) 4% = 9,250,000 \* 0,04 = 370,000 AMD. The amount of turnover tax payable after deduction should have been 500,000-370,000 = 130,000 AMD, but since this sum is smaller than 150,000 AMD (1.5% of turnover 10,000,000 AMD), the final amount of turnover tax payable will be 150,000 AMD. At the same time, the amount of turnover tax payable in the next quarter will be reduced by the difference of 20,000 AMD registered in the previous quarter (= 150,000-130,000).

#### Reductions. Activities in the field of public catering

3% of the total expenses related to the activities in the field of catering can be deducted from the turnover tax amount. Such costs include the cost of purchasing raw materials for cooking (agricultural products, food supplements, etc.), employee fees, restaurant rent, utility bills for own or rented restaurant, loan interest rate, etc.

Expenditures to be deducted do not include the cost of acquiring or constructing fixed assets<sup>10</sup> (for example, restaurant space, table/chair, utensils, etc.), fixed and current costs of property, plant and equipment (for example, repair of leased or purchased space), depreciation of tangible and intangible assets, the cost of acquiring other non-culinary assets (for example, if you decide to upgrade your cooking equipment and you are selling an old one). The amount of turnover tax after deduction, however, may not be less than 4% of turnover. If, after deductions, the amount of turnover tax is less than 4% of turnover, the deduction is made to the extent that the final amount of turnover tax is 4% of turnover. Understand how the reduction mechanism works with the examples below.

**Example:** You have a restaurant business. You bought the restaurant hall for 30,000,000 AMD, and the renovation costs of the hall costed 4,000,000 AMD. During the quarter you bought fruits, vegetables, meat, oil to 3,000,000 AMD. The purchase of the dishes during the quarter cost 300,000 drams. And the newly purchased kitchen gas stove costs 60,000 AMD. Utility bills amounted to 120,000 drams during the quarter. The quarterly turnover (proceeds from the sale of culinary products) amounted to 8,000,000 drams. Thus, taking into account the 6% turnover

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<sup>9</sup> The sum of the expenses does not include the expenses for the trip to Germany, as the latter is not an expense for the goods imported to Armenia for direct sale.

<sup>10</sup> Fixed assets are tangible assets that cost more than 25,000 AMD and are utilized in the manufacturing or supply of goods and services and are set for more than 1 year usage.

tax rate for your activity, the amount subject to turnover tax will be 480,000 AMD (0.06 \* 8,000,000). The amount of 480,000 AMD turnover tax sum can be reduced to 3% of (3,000,000 + 120,000) AMD<sup>11</sup> = 3,120,000\*0,03 = 93,600 AMD. The final amount of turnover tax to be paid will be 480,000-93,600 = 386,400 AMD (> 0.04 \* 8,000,000 = 320,000 AMD).

Details of all other tax payments are given in the table below:

	Excise Tax	Profit Tax	Personal Income Tax <sup>12</sup>	Turnover/Sales Tax
LLC/C JSC/O JSC	You will be subject to excise tax if you 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,	N/A	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 (including the individual entrepreneur himself, if the latter is a registered employee and receives a salary): 21% of monthly salary	Paid based on the principles described above
IE		The individual entrepreneur pays 5000 AMD per month for himself.		

<sup>11</sup> The total cost does not include the purchase of the hall (acquisition of fixed assets), repair costs (capital on fixed assets), the cost of the stove, as well as the purchase of dishes, as the cost of the latter exceeds 25,000 AMD, thus being considered a fixed asset.

<sup>12</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.

	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: <a href="https://bit.ly/38Y2845">https://bit.ly/38Y2845</a>			
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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 <sup>13</sup>	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
IE	Individual entrepreneur operating under the turnover tax system pays a monthly accumulative payment of 5000 AMD <sup>13</sup> :  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 <sup>13</sup>	IE operating under turnover tax regime 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 <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

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

<sup>13</sup> If born after January 1, 1974. If born until 1974, January 1 no social payment is required.

To work under the turnover tax regime, one needs to fill in and submit «201. Application to be considered to work under turnover tax regime» in the Section of «Reports» of the State Revenue Committee electronic platform here: <https://file-online.taxservice.am> . The latter must be done within 20 days after registration. If more than 20 days have passed since the registration, it will not be possible to appear in turnover tax regime for the given year. The application must be submitted in the period from January 1 to February 20 of each year, regardless of the fact that it was previously registered in that system.

#### 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 turnover tax regime, there is a range of tax reports you need to submit from the section “Reports”.

Name	Deadline
232. Calculation of turnover tax <sup>14</sup>	Until the 20th of the month following each reporting quarter
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 <sup>15</sup>	Until April 20th of the following tax year

<sup>14</sup> 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>

<sup>15</sup> In the 4th line it is necessary to indicate the individual entrepreneur, in the 5th line - the reporting year. Of all the other lines, it is necessary to fill only the 107th line "107. The amount of profit tax of the IE engaged in the types of activities taxed by the turnover tax " and to choose 60,000 AMD from the possible options.

In case of being a turnover taxpaying individual entrepreneur 244. Calculation of social payment <sup>16</sup>	Until April 20 <sup>th</sup> of the following tax year <sup>17</sup>
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In case you are excise taxpayer<sup>18</sup>, 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 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	
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 month	

<sup>16</sup> Line 5 should indicate the reporting year. From all the other lines it is necessary to fill only the 8th line "Social payment for the activity carried out in the system turnover tax" and to choose 60,000 AMD from possible options.

<sup>17</sup> You can also pay the social contribution on a monthly basis until the 20th of the month following each reporting month. In this case, when filling out the report, you should choose AMD 5,000 from the possible options in line 8.

<sup>18</sup> 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 <sup>st</sup> 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