

# THE LAW OF THE REPUBLIC OF ARMENIA

Adopted by the National Assembly  
on September 30, 1997

## ON PROFIT TAX

### PART 1. GENERAL PRINCIPLES OF TAXATION

#### Chapter 1. General Provisions

##### **Article 1. Objects Regulated by this Law**

This Law regulates relations pertaining to the definition and payment of the profit tax in the Republic of Armenia, defines the circle of profit tax payers in the Republic of Armenia, profit tax rates, procedures on calculation and payment of the profit tax.

##### **Article 2. Concept of Profit Tax**

Profit tax is a direct tax to be paid by taxpayers into the state budget in the amount and according to the procedure established by this Law.

##### **Article 3. General Basis for the Profit Tax Calculation**

1. When determining the profit tax the calculation of the latter shall be carried out in accordance with the principles and rules established by the Laws and other legal acts regulating the accounting and financial reporting, unless the peculiarities of their application are provided by this Law.
2. Within the period of submitting the profit tax reports, the taxpayers shall inform the Tax Inspectorate body in a written form about the principles and rules of accounting and financial reporting chosen by them, as well as of any changes, provided the right of choice is granted to them by the Law or other legal act.
3. When determining the taxable profit, **assets and liabilities are considered by their initial (purchase) cost<sup>1</sup>, with the exception of the results of revaluation carried out according to the procedure established by the Law (with supplement of 30.12.98.)**.
4. **When determining the taxable profit, only the incomes and deductions raising due to creation of reserves (reserve fund) defined by this law are taken into consideration (with supplement of 26.12.2000)**

#### Chapter 2. Taxpayers and Object of Taxation

<sup>1</sup> with amendment of 06.12.2000

#### **Article 4. Profit Tax Payers**

1. The profit tax in the Republic of Armenia shall be paid (the taxpayers are) residents of the Republic of Armenia ( hereinafter - residents ) and non-residents, with the exception of budgetary institutions and the Central Bank of the Republic of Armenia.
2. For the purposes of this Law:
  - a) **organizations created (obtained state registration and registered at tax entities), except for separated sub-offices of organizations specified in point “b” of this clause shall be considered as residents** (with amendment of 26.12.2000);
  - b) **organizations<sup>2</sup>**, created in foreign countries, as well as international organizations and legal persons and enterprises without the status of a legal person, created by them outside the Republic of Armenia shall be considered non-residents.

#### **Article 5. Object of Taxation**

1. The taxable profit received within and outside the territory of the Republic of Armenia shall be considered as the object of taxation for residents.
2. The taxable profit received from Armenian sources (Article 53 of this Law ) shall be considered as the object of taxation for non-residents.

#### **Article 6. Taxable Profit**

Taxable profit is the positive difference between the gross income of the taxpayer and deductions defined by this Law.

### **Chapter 3. Gross Income**

#### **Article 7. Gross Income**

1. Gross income is the total amount of income received by the taxpayer in the reporting year, irrespective of the source.  
For the purposes of this Law:
  - a) the inflow, growth of assets or the reduction of liabilities within the reporting year which leads to the growth of the taxpayer’s equity capital shall be considered as income;
  - b) the difference between the assets and liabilities shall be considered as equity capital;
  - c) any means belonging to the taxpayer by the ownership right, including property (tangible assets), proprietary rights and personal non-proprietary

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

- rights related to the proprietary rights (intangible assets), foreign currency, securities, receivables, and other property, shall be considered as assets;
- d) the indebtedness of a taxpayer (credit, payables, tax liability, etc.) shall be considered liability.
2. The following items shall be considered income, namely:
- a) revenue from the sales of goods, output (hereinafter - goods);
  - b) revenue from the sales of services;
  - c) revenue from the sales of fixed and other assets;
  - d) interest and other compensation received on loans (hereinafter - interest);
  - e) payments and other compensation (hereinafter - lease payments) received from the lease;
  - f) compensation received for the use or the right to use any copyrights on the pieces of literature, art or science, of any patents, trade marks, projects or models, plans, classified formulae or processes, software for computers and databases, the use or the right to use industrial, commercial or scientific equipment, as well as for the provision of information on industrial, technical, organizational, commercial and scientific experience (hereinafter - royalty);
  - g) dividends;
  - h) insurance compensation;
  - i) income derived from financing liabilities or commercial transactions, or from the implementation of other factoring operations;
  - j) income received from futures, options and other similar transactions;
  - k) gratis assets, income from discount, or remission of liabilities, with the exception of the amounts of tax privileges provided by the Law (with supplement of 30.12.98.);**
  - l) income received from compensation for the damage caused (losses incurred);
  - m) income received in the form of penalties, fines and other proprietary sanctions;
  - n) income received from transactions recognized as invalid;
  - o) amounts of bad payables written off according to the procedure established by the body authorized by the Government of the Republic of Armenia, and in case of banks – jointly by the body authorized by the Government of the Republic of Armenia and by the Central Bank of the Republic of Armenia (with amendments of 30.12.98.);**
  - p) amount used to cover bad debts written off earlier from the balance sheet, according to the procedure established by the body authorized by the Government of the Republic of Armenia, or in case of banks – jointly by the body in question and the Central Bank of the Republic of Armenia (with amendments of 30.12.98.), and in case of covering a not written-off liability - the amount of allowances performed according to the established procedure;**
  - q) the reduced income revealed within the reporting year and/or the excessive deduction of income within the three directly preceding years;
  - r) income received from the provision of banking guarantees, or accept operations;

- s) income received from the trust or other management of securities and investments of third persons, as well as from the provision of broker and financial agent (representative) services;
- t) income received from the issue, transfer, discount, concession or service of promissory notes, checks, other payment securities, payment documents, cards and other instruments;
- u) **cash refunded from the reserves of insurance for the purpose of compensation** (with amendments of 30.12.98.);

3. For the purposes of this Law the period of limitation of the payables on general delivery shall start from the day of submitting the claim, though not later than on the 61st day after the implementation of the transaction.

### **Article 8. Elements Not Treated as Income**

**For the purposes of this Law** (with amendment of 30.12.98.), investments of the participants (shareholders, stockholders, members) in the charter capital (fund) of a taxpayer, the positive difference between the issuing price and the face value of the taxpayer's shares, assets combined for the purposes of joint activity, shall not be treated as income.

**For the purposes of this Law, the positive result of the revaluation of foreign currency and other assets and liabilities expressed in foreign currency, as well as the positive result of the revaluation of fixed assets carried out according to the established procedure shall not be treated as income** (with amendments of 30.12.98.).

**For the purposes of this Law, amounts of tax privileges provided by the Law shall not be considered as income** (with amendment of 30.12.98.).

**In terms of this law, assets (including member fees) and services gained by con-commercial organizations gratuitously, shall not be considered as incomes** (with supplement of 26.12.2000).

## **Chapter 4. Deductions from the Gross Income**

### **Article 9. Deductions from the Gross Income**

When determining taxable profit, it shall be allowed to make deductions from the gross income provided by this Chapter (expenses, losses and other deductions). The amount of the same deductions may be executed from the gross income only once.

### **Article 10. Expenses**

1. When determining taxable profit, the gross income shall be reduced in the amount of necessary and documentary supported expenses incurred on deriving it.

For the purposes of this Law :

- a) the outflow and decrease of assets, or the growth of liabilities within the reporting year which leads to the decrease of the equity capital of a taxpayer, shall be considered as expenses;
  - b) expenses incurred by a taxpayer exclusively and directly on the production of goods, provision of services, progress and / or realization in the goods (service) market, consulting and legal services, correction of short-comings found in the course of the accompanying, guarantee control and exploitation, the preparation, mastering and conservation of production (construction), safety of property, training of the staff, as well as other expenses related to the receipt of income and necessary for it shall be considered as necessary expenses. (with amendment of 30.12.98.).
2. Expenses shall include, in particular:
- a) material expenses;
  - b) labor costs and other payments deemed equal thereto;
  - c) **payments on the obligatory social insurance** (with amendment of 30.12.98.);
  - d) depreciation allowances;
  - e) insurance premiums;
  - f) non-refundable (non-credited) taxes, duties and other obligatory payments;
  - g) interest on loans and other borrowings;
  - h) payments on guarantees, letters of guarantee, letters of credit and other banking services;
  - i) advertisement expenses;
  - j) representative expenses;
  - k) business trip expenses;
  - l) court expenses;
  - m) compensation for the damage caused;
  - n) fines, penalties and other proprietary sanctions, with the exception of cases defined in the clause “g”, paragraph 1 of Article 16 of this Law;
  - o) expenses on staff recruitment;
  - p) expenses on audit, legal and other consulting, information and administrative services;
  - q) expenses on factoring, trust operations;
  - r) reduced expenses revealed in the reporting year for the three directly preceding years.
  - s) **current expenses incurred on the fixed assets** (with supplement of 30.12.98.).
3. **The requirements to the documents confirming the acquisition (and in corresponding cases – regarding the income of other taxpayers) of material inventories, works, services, fixed and other assets, shall be defined by the Government of the Republic of Armenia** (with supplement of 30.12.98.).

### **Article 11. Elements not Treated as Expenses**

The following items shall not be considered expenses:

- a) distribution of a taxpayer’s equity capital among the participants - in the form of dividends or in other similar form;
- b) investments of a taxpayer in the charter capital of a third person;

- c) the negative difference between the value of the taxpayer's shares, parts or stocks repurchased by him and the balance value of the shares in question;
- d) the negative result of the revaluation of foreign currency and other assets and liabilities expressed in foreign currency, **as well as the negative result of revaluation of fixed assets carried out according to the procedure established by the Law** (with supplement of 30.12.98.).
- e) **expenses or expenditures made on the account of assets (including member fees) gained by non-commercial organizations gratuitously** (with supplement of 26.12.2000)

## **Article 12. Depreciation Allowances**

1. When determining taxable profit, the gross income shall be reduced in the amount of depreciation allowances from the fixed and intangible assets used in activity and subject to depreciation within the terms defined in paragraphs 2, 3 and 4 of this Article.
2. **The amount of depreciation allowances shall be calculated pursuant to the procedure established by this Article, according to the minimum depreciation periods determined below for the given group of fixed assets:**
  - a) **for buildings, constructions and transmission devices, except those listed in the clause "b" of this paragraph** - 20 years
  - b) **for buildings and constructions of hotels, boarding-houses, rest homes, sanitariums, educational institutions<sup>3</sup>** - 10 years
  - c) **for the not-mentioned assembly lines, robot equipment** - 3 years
  - d) **for calculating devices and computers** - 1 year
  - e) **for other fixed assets, including the growing cattle, perennial plants, and investments intended for improving the land** - 5 years

**The minimum period of depreciation for the fixed assets mentioned in clauses "a" and "b" of this paragraph, which are located in the disaster area, shall be established within the period of one year. The territory of the disaster area mentioned in this Part shall be determined by the Government of the Republic of Armenia.** (with amendments of 28.07.98).

**The minimal period for depreciation of the capital goods worth of under 50 000 drams is one year** (with supplement of 26.12.2000).

3. The depreciation period of intangible assets shall be determined by the taxpayer on the basis of the period of possible effective use thereof. In case of impossibility to determine the period in question, the minimum depreciation period of intangible assets shall be set as 10 years, though not to exceed the period of the taxpayer's activity.
4. For the purposes of determination of the taxable profit the taxpayer may choose another period of the fixed assets at his/her discretion, but not to be less than one of the above-mentioned periods for the given group.
5. The annual value of depreciation allowances shall be calculated as the division of the initial cost or - **in case of revaluation carried out according to the procedure established by the Law – the revalued cost** (with supplement of 30.12.98.) of fixed assets on the depreciation period determined for the given

<sup>3</sup> with supplement of 26.12.2000

group of fixed assets, mentioned in paragraphs 2, 3 or 4 of this Article, or for intangible assets.

### **Article 13. Expenses Incurred on the Fixed Assets**

- 1. When determining taxable profit, the gross income shall be reduced:**
  - a) in the amount of current expenses incurred on the fixed assets;**
  - b) for the lessee - in the amount of current expenses incurred on the leased fixed assets;**
- 2. Expenses of the capital character incurred on the fixed assets shall be added to the initial cost of the fixed asset, on which those expenses were incurred, and shall be depreciated according to the procedure established by Article 12 of this Law.**
- 3. Expenses of the capital character incurred on the leased fixed assets shall be depreciated by the lessee according to the procedure established by Article 12 of this Law. In case of a cessation and actual termination of the lease agreement, the incompletely depreciated remainder shall not be deducted<sup>4</sup> from the gross income of the lessee.**
- 4. For the purposes of this Law, the differentiation of expenses, incurred on the fixed assets (including leased), between current and capital ones shall be made on the basis of the criteria defined by the Government of the Republic of Armenia. (with amendments of 30.12.98.).**

### **Article 14. Expenses on Preparatory, Drafting and Research Activities, Geological Research for the Extraction of Natural Resources**

When determining taxable profit, the gross income shall be reduced in the amount of expenses incurred by the taxpayer on preparatory, drafting and research activities, geological research for the extraction of natural resources, performed in accordance with the procedure established by the paragraph 3, Article 12 of this Law.

### **Article 15. Expenses on the Scientific Research, Experiments and Design**

When determining taxable profit, the gross income shall be reduced in the amount of expenses incurred completely on scientific research, experimental and designing activities within the year of producing such expenses. For the purposes of this Law the classification (concept) of scientific research and experimental - designing activities shall be established by the Government of the Republic of Armenia.

### **Article 16. Expenses Not Subject to Deduction From the Gross Income For the Purposes of Taxation**

<sup>4</sup> with amendment of 26.12.2000

1. When determining taxable profit, the gross income shall not be deducted in the amount of:
  - a) expenses exceeding the rates of payments established by the Government of the Republic of Armenia for the pollution of the environment;
  - b) expenses on advertisement, training and additional training of the staff outside the Republic of Armenia, exceeding the rates established by the Government of the Republic of Armenia;
  - c) expenses, exceeding the rates established by the Government of the Republic of Armenia, on special nutrition, uniforms and other equipment for the employees, as well as other types of compensation defined by the legislation;
  - d) expenses on business trips outside the Republic of Armenia and daily expenses for local trips, exceeding the rates established by the Government of the Republic of Armenia;
  - e) representative expenses exceeding the rates established by the Government of the Republic of Armenia;
  - f) expenses on the maintenance of public health institutions, nursing homes for the aged and disabled, nurseries, rehabilitation camps, culture, education and sport institutions, as well as objects of the housing fund (including depreciation allowances and repairs expenses), exceeding the rates established by the Government of the Republic of Armenia;
  - g) fines, penalties and other proprietary sanctions transferred to the state and municipal budgets, **including for the obligatory social insurance payments** (with supplement of 30.12.98.), with the exception of those exacted for non-execution or improper execution of civil and legal liabilities;
  - h) assets provided gratis, remitted liabilities, with the exception of the case defined in Article 23 of this Law;
  - i) allocations provided for the unions and other structures of non-state administration;
  - j) expenses on the maintenance of servicing units (free provision of buildings, settling the fees for utilities of public catering enterprises);
  - k) expenses on services rendered by the taxpayer (or to the taxpayer) which are not related to the production of goods (town and other populated areas planning activities, promotion of agricultural activities, etc.).
2. In case when the amount of possible reduction is not defined by the Government of the Republic of Armenia for the expenses provided by clauses "a" - "f" of this Article, the gross income shall be reduced in the total amount of actual expenses.

#### **Article 17. Expenses incurred in consequence of transactions recognized as invalid**

When determining taxable profit, the gross income shall be reduced in the amount of funds returned to the other party of the transaction in consequence of the recognition of the transaction as invalid.

#### **Article 18. Amounts of Written-Off Bad Debts and Covering of Earlier Written-Off Bad Debts (with amendment of 30.12.98.)**



1. When determining taxable profit, the gross income shall be reduced - in accordance with the procedure on writing off bad debts established by the Government of the Republic of Armenia or the authorized body - in the amount of allowances to the reserve fund, and in the case when these debts are written off - in the amount exceeding the amount of allowances to the reserve fund created for this purpose.
2. When determining taxable profit, the gross income shall be reduced in the amount of covering **bad debts written off earlier according to the procedure established by the body authorized by the Government of the Republic of Armenia and in case of banks – by the body in question and the Central Bank of the Republic of Armenia** (with amendments of 30.12.98.).

#### **Article 19. Expenses Not Supported Documentary**

1. When determining taxable profit, the gross income shall be reduced in the amount not exceeding the daily rates established by the Government of the Republic of Armenia - without supporting documents.

#### **Article 20. The Reduction of Income Shown in Excess During the Previous Years**

When determining taxable profit, the gross income shall be reduced in the amount of the income shown in excess and (or) in the amount of deductions reduced within the previous three years and revealed in the reporting year.

#### **Article 21. Natural and Other Losses<sup>5</sup>**

1. **When determining the taxable profit, gross income is reduced by the amount of natural or other losses of property substantiated by documents and not exceeding the rates defined by the Government of the Republic of Armenia within the year of their occurrence or identification, provided that there are such rates defined by the Government of the Republic of Armenia** (with amendment of 26.12.2000).
2. **In case if there are no rates of natural or other losses defined or if the rates are exceeded<sup>6</sup>**, the gross income shall be reduced in the amount of the losses in question in accordance with the procedure established by the Government of the Republic of Armenia:
  - a) in case of the complete or partial voluntary compensation of losses by the person who caused the damage - within the year of complete or partial compensation of the losses - or
  - b) in case of the adoption of a decree by the body of the preliminary inquiry on the suspension or cessation of the criminal action in consequence of not revealing the person who caused the losses - within the year of adoption of the decree – or

<sup>5</sup> with supplement of 26.12.2000

<sup>6</sup> with amendment of 26.12.2000

- c) in case of convicting or acquitting the person - within the year of coming of the sentence into effect.

## **Article 22. Incidental Losses**

1. When determining taxable profit, the gross income shall be reduced in the amount of incidental losses of property - in the course of the year when the losses took place or were revealed.
2. For the purposes of this Law the documentary supported actual losses, destruction, damage, or qualitative deterioration of a taxpayer's property occurring in consequence of fire, flood, earthquake or other natural disaster, shipwreck, war, military actions, aggression, mass disorders, rebel, or other extreme events (including insurance cases defined by the Law) shall be considered incidental losses.

## **Article 23. Charity And Other Gratis Allocations**

When determining taxable profit, the gross income shall be reduced:

- a) in the amount of assets (goods and/or cash) transferred (provided) to the **non-commercial organizations, libraries, museums, public schools, asylums, residential homes and orphanages**<sup>7</sup> as well as to the psycho-neurological and tuberculosis treatment infirmaries and hospitals, also in the value of services rendered thereto, but not to exceed **0,25% of the gross income** (with amendment of 30.12.98.);

## **Article 24. Assets Receives Gratuitously<sup>8</sup>**

**In terms of this law, assets gained gratuitously are considered as incomes within the reporting period when they are considered to be expenses or losses, irrespective of the fact of deduction of the mentioned expenses or losses from the gross income** (with amendment of 26.12.2000).

## **Article 25. Losses Incurred From the Taxpayer's Activity**

1. When determining taxable profit, the gross income shall be reduced in the amount of losses incurred by the taxpayer in the course of the previous years. The exceeding of deductions from the gross income, established by the Law, shall be considered as a loss incurred from the taxpayer's activity.
2. For the purposes of the application of the mentioned deduction in case of a loss incurred from the taxpayer's activity within the reporting year and the preceding one, the loss shall be transferred **to the five years following the year when loss incurred. This limitation does not apply for banks** (with amendment of 26.12.2000).

<sup>7</sup> with supplement of 26.12.2000

<sup>8</sup> with amendment of 26.12.2000

## **Article 26. Dividends**

When determining taxable profit, the gross income shall be reduced in the amount of dividends received by the taxpayer, with the exception of the case provided in paragraph 2, Article 56 of this Law.

For the purposes of this Law, income received from participation (share, part, stock) in the charter fund of the other legal person or enterprise without the status of a legal person shall be considered dividend.

## **Article 27. Realization of Repurchased Participation**

When determining taxable profit, the gross income shall be reduced in the amount of the positive difference between the sales price and the balance sheet value of the taxpayer's shares, parts or stocks repurchased by him/her, in case when the mentioned shares, parts and stocks were repurchased by virtue of the Law.

## **Article 28. The Residual Property Received From a Liquidated Legal Person**

When determining taxable profit in case of the liquidation of a legal person, the gross income shall be reduced in the amount of the positive difference between the amount of residual property received from the shares (parts) of the taxpayer, and balance sheet value of the shares.

## **Article 29. Difference Between the Face Value And the Purchase Price of Privatization Certificates**

When determining taxable profit, the gross income shall be reduced in the amount of the difference between the purchase price of privatization certificates and the investment price paid by the taxpayer for the participation in privatization, and in cases of investing the certificates into the investment funds – in the amount of the difference between the face value and the purchase price (balance sheet value) of certificates.

## **Article 30. Deductions From the Gross Income of Banks For the Purposes of Taxation**

For the purposes of taxation the gross income of banks, in addition to the deductions defined in Articles 10 - 29 of this Law, shall be reduced also in the amounts of:

- a) the credits granted by a bank, investment securities, receivables transferred to the reserve of possible losses, - in accordance with the procedure established jointly by the authorized body of the Government of the Republic of Armenia and the Central Bank of the Republic of Armenia;
- b) interest accrued on the bank deposits of clients;

- c) interest accrued by the bank liabilities (bonds, depository and investment certificates, promissory notes), as well as in the amount of the negative balance between the sales price of creditor securities and the face value thereof (discount);
- d) the mediator payments made by the bank for services and through correspondent relations, including fringe services for the clients, expenses on the keeping of their cash, current and other accounts, payments to other banks for the cash service, and other similar expenses;
- e) expenses on the transportation of cash, checks, other payment documents (encashment), as well as on the packing of values, including expenses on the supplement of cash, transportation, safe keeping and expedition of values, belonging to the bank or its clients;
- f) payments for fringe services;
- g) expenses related to the production, issue, safe keeping and inculcation of the payment means, necessary for the bank activity (plastic cards, traveler's checks, etc.);
- h) expenses on the issue of shares, bonds, certificates, other liabilities and securities being in circulation in the financial market (expenses on preparation of emission prospects, acquisition, printing of securities, payments of mediator rewards for spreading the securities);
- i) losses incurred by a bank because of counterfeit banknotes and payment documents.

### **Article 31. Deductions From the Gross Income of Insurance Companies For the Purposes of Taxation**

For the purposes of taxation, in addition to the deductions defined in Articles 10 - 29, the gross income of insurance companies shall be reduced also in the amounts of:

- a) insurance (reinsurance) compensation;
- b) transferred insurance payments on reinsurance;
- c) allowances to the reserves of preventive measures, expenses on the transportation, maintenance and expedition of **values belonging to insurers and the insured** (with amendments of 30.12.98.);
- d) allowances to **the reserves of insurance** (with amendment of 30.12.98.);
- e) commission paid to insurance agents and brokers;
- f) payments for the fringe services;
- g) expenses related to the production, issue, safe keeping and inculcation of payment assets necessary for the activity of insurance companies (traveler's checks, plastic cards, etc.).

### **Article 32. Deductions From the Gross Income in the Line of Expenses**

1. Deductions from the gross income in the amount of expenses directly

related to the production of goods and provision of services (material, labor costs, social insurance, etc.) shall be made in accordance with the sales of the goods and services in question.

2. Deductions from the gross income in the amount of the cost of goods purchased from the taxpayers implementing trade activity shall be made in accordance with the sales of these goods.
3. Deductions from the gross income in the amount of the residual value of the assets not provided by paragraphs 1 and 2 of this Article (fixed and other assets) shall be made in accordance with the sales thereof (with amendment of 30.12.98.).
4. Deductions from the gross income in the amount of administrative expenses related to the activity of a taxpayer (salaries and wages of the administration, social insurance, **business trips, material and transport services** (with amendments of 30.12.98.), maintenance and exploitation of technical means of administration and fixed assets of administrative importance, representative, judicial, auditing, consulting and information services, training and retraining of the staff, etc.), expenses connected with the sales of goods and services (packing, maintenance, loading, transportation, accompanying, advertisement, marketing, etc.), other non-productive expenses (inventions, rationalization, scientific research, projects and other experimental activities, etc.) shall be performed in the course of the year they refer to.
5. Deductions from the gross income in the amount of expenses related to the taxpayer's financial activities (interest on loans and other borrowings, interest on long-term lease of property, etc.) shall be produced within the year they refer to (with amendment of 30.12.98.).
6. Deductions from the gross income in the amount shown excessively in the course of previous years ( or in the amount of reduced deductions) shall be made within the year of revealing thereof.

## **Chapter 5. Profit Tax Rates**

### **Article 33. Profit Tax Rates**

1. The amount of the profit tax in respect to the taxable profit shall be calculated by rate of 20 percent.

### **Article 34. Fixed Payments of the Profit Tax**

The fixed payments substituting for the profit tax may be established by the Law for certain payers, groups of payers and types of activity.

## **Chapter 6. Profit Tax Privileges**

### **Article 35. Income Derived From the Sales of Agricultural Production**

1. Taxpayers involved in agricultural production shall be exempt from the profit tax in the part of the income derived from the sales of **their** (with amendment of 30.12.98.) agricultural production, as well as income derived from the sales of fixed and other assets, and in the amount of other income, if the latter does not exceed 10% of the gross income.
2. For the purposes of this Law the following products received through the biological processing of plants and animals for the final and intermediate consumption shall be considered agricultural production:
  - cereals and beans;
  - technical crops;
  - tuberous plants, vegetables and products of the covered soil;
  - fodder plants of field cultivation;
  - other products of fodder production;
  - products of gardens, vineyards, perennial plantations and floriculture;
  - seeds of trees and shrubs, as well as fruit seeds;
  - seedlings of trees and shrubs;
  - products of the cattle-breeding;
  - products of the pig-breeding;
  - products of the sheep-breeding and the goat-breeding;
  - products of the poultry farming;
  - products of the horse-breeding, ass-breeding and mule-breeding;
  - products of the deer-breeding and camel-breeding;
  - products of the rabbit-breeding, fur animal breeding and hunting;
  - products of the **fish-breeding** (with amendments of 30.12.98.),
  - apiculture, silkworm cultivation and artificial insemination
3. In case of impossibility to make exact accounting of the income derived from agricultural production, the income shall be calculated on the basis of the net cadastral income data approved in accordance with the procedure established by the legislation of the Republic of Armenia.

### **Article 36. Payments to the Disabled**

When determining the taxable profit of a taxpayer, the gross income shall be reduced in the amount of 150% of salaries and wages, and other payments deemed equal thereto, accrued to every disabled person employed by the taxpayer.

### **Article 37. Privileges of a Resident with Foreign Investments**

1. **In case when the total amount of investment in the equity capital of a resident with foreign investments (except banks), actually performed by foreign investors after January 1, 1998 constitutes at least 500 million drams, the amount of the profit tax for the resident in question shall be reduced:**

Date of supplement of the established norm of foreign investment in the equity capital of a resident	The amount of deductions from the profit tax for a resident with foreign investments for each year	
	in 100%	in 50%
1998	1999 and 2000	2001-2008 inclusive
1999	2000 and 2001	2002-2009 inclusive
2000	2001 and 2002	2003-2008 inclusive
2001	2002 and 2003	2004-2007 inclusive
2002	2003 and 2004	2005-2006 inclusive
2003	2004 and 2005	
2004	2005 and 2006	
2005	2006 and 2007	
2006	2007 and 2008	
2007	2008 and 2009	

In case when the taxpayer is liquidated within the effective period of the privilege, established by this paragraph, the amount of the profit tax for the period of this privilege shall be calculated at the full rate - for the whole period of activity.

2. In case when the profit tax privileges are granted to the enterprises and banks with foreign investments by the Law or other legal act prior to January 1, 1998, the taxpayer may use the privilege defined by paragraph 1 of this Law at his/her discretion up to the expiration of the validity period, established by this Law or other legal act, on the basis of the application on the privilege submitted to the Tax Inspectorate bodies. (with amendments and supplements of 23.05.98).

### **Article 38. Profit Tax Privileges Defined by Other Laws**

The Law may establish other privileges on the exemption from the profit tax and those provided by the tax legislation of the Republic of Armenia.

## **Chapter 7. Tax Accounting**

### **Article 39. Accounting on the Accrual Basis**

When determining the object of taxation, accounting of the income and expenses shall be performed on the accrual basis.

When the accounting is performed on the accrual basis, the taxpayer accounts income and expenses respectively from the moment of the acquisition of the right to receive such income or to recognize the expenses, irrespective of the actual period of deriving such income or making the payments.

### **Article 40. Peculiarities of Accounting on the Accrual Basis**

When accounting income on the accrual basis, the taxpayer shall take into consideration the following peculiarities:

- a) the right to receive income is deemed acquired when the corresponding amount is subject to unconditional payment (compensation) to the taxpayer, or when the taxpayer has fulfilled the liabilities of the transaction or the contract, even if the moment of fulfillment of this right is deferred, or the payments are made in parts;
- b) in case of the provision of services by a taxpayer, the mentioned right is deemed acquired from the moment of finishing the provision of services (also step by step) related to the transaction;
- c) when receiving income in the form of interest or from the lease of the property, the right to receive income is deemed acquired from the moment of the expiration of the debt period or the lease contract. In case when the expiration period of the debt or the lease contract includes several reporting periods, the income for the reporting periods shall be distributed according to the accrual.

## **Chapter 8. Procedure on Calculation and Terms of the Tax Payment**

### **Article 41. Determination of the Amount of the Profit Tax**

1. Taxpayers shall determine the amounts of the profit tax on the annual basis, in accordance with the rates defined in Chapter 5 of this Law.
2. For the purposes of the profit tax calculation, in cases provided by Article 22 of the Law of the Republic of Armenia "On Taxes", the Tax Inspectorate body shall exercise the right provided by Part 2 of the same Article

### **Article 42. Payment of the Profit Tax in Centralized Order**

The Government of the Republic of Armenia may define the list of enterprises that shall be allowed to calculate the profit tax, submit reports and pay the tax in the centralized order.

### **Article 43. Submission of Profit tax Calculations and Accounting (Financial) Reports**



1. Prior to April 15 of the year following the reporting one, the profit tax payers shall submit the profit tax calculations and accounting (financial) reports based on the annual results to the Tax Inspectorate body of their registration, in accordance with the forms established by the legislation of the Republic of Armenia.
2. The period of submission of the profit tax calculations and accounting (financial) reports shall include also the day mentioned in this Article, and in case when this day is a non-working, the period of submission shall be transferred to the next working day.
3. **Profit tax settlement forms shall not be completed (and filed) by:**
  - a) **taxpayers producing (mainly) agricultural products, provided that the ratio to total of incomes gained from sale of capital goods and other assets within the gross incomes does not exceed 10 percent.**
  - b) **non-commercial organizations, provided that the gained means are not considered as incomes exclusively by article 8 of this Law.**
  - c) **taxpayers conducting activities taxable by presumptive payments only and (or) taxpayers paying simplified tax only** (with amendment of 26.12.2000).

#### **Article 44. Advance Payments of the Profit Tax for Residents**

1. A taxpayer must make advance payments of the profit tax during the year, in accordance with the procedure established by this Article.
2. Advance payments shall be made monthly, in the amount of 1/16 of the actual amount of the profit tax for the previous year, not later than on the 25th day of the current month (and in case when it is a holiday, from the first working day next to the holiday).

In case of the failure to make advance payments within the set terms, the Tax Inspectorate bodies shall present claims on the amounts of these advance payments and fines accrued thereon.
3. A newly established taxpayer may not make advance payments of the profit tax up to April 25 of the following year, having notified the Tax Inspectorate bodies in advance.
4. A taxpayer may not make advance payments of the profit tax after the submission of tax accounts, provided that he/she did not have taxable profit in the preceding year, or in case when the amount of taxable profit for the preceding year did not exceed 500.000 drams.
5. Prior to the calculation of the actual amount of the profit tax for the preceding year, the taxpayer shall make monthly advance payments of the profit tax in the amount constituting not less than the last advance payment in the preceding year.

**After the amounts of the actual profit tax for the pervious year became known, the verification of the amounts of advance payments, which were made during the current year prior to the submission of calculations, shall be performed during the first advance payment following the submission of profit tax calculations – according to the total amount growing from the beginning of the year and the rates mentioned in clause 2 of this Article** (with amendments of 30.12.98.).

6. In case of planning the taxable profit in the current year to be less than that of the preceding year, the taxpayer shall independently determine the amount of a monthly advance payment **and presents a written notification thereon to the Tax Inspectorate bodies not later than on the date of submitting the profit tax calculations** (with supplement of 30.12.98.). In case when the total annual amount of the advance payments constitutes less than 75% of the actual profit tax for the current year, the taxpayer shall pay a fine **in regard of the amount of the difference between 1/16th of the actual profit tax and the advance payment actually made within the current month - starting from the day set for making the advance payment by clause 2 of Article 47 of this Law** (with amendment of 30.12.98.) till the day when the actual amount of the profit tax became known to the Tax Inspectorate body (prior to the day of submitting the calculation of the profit tax).
7. On the expiration of the reporting year the taxpayer shall calculate the amount of the profit tax on the basis of the calculated taxable profit, and add the amounts of the advance payments for the given reporting year thereto.
8. In case when the actual amount of the profit tax constitutes less than the total amount of advance payments for the year in question, the difference between them shall be refunded to the taxpayer, in accordance with Article 33 of the Law of the Republic of Armenia "On Taxes". In this case the accrual of the fines on the advance payments shall be ceased on the day when the actual amount of the tax becomes known to the Tax Inspectorate body (on the day of submitting the calculation of the profit tax), but not later than on April 25. The amounts of fines accrued on the advance payments shall not be refunded or recounted.
9. In case when the total amount of the advance payments constitutes less than the actual amount of the profit tax for the reporting year, the recalculation shall be performed only of the profit tax, and the taxpayer must pay the difference to the state budget. In this case the accrual of fines on the advance payments shall be ceased from the day of informing the Tax Inspectorate body about the actual amount of the profit tax (on the day of submitting the profit tax calculation). In case of a delay in the payment of the profit tax, the accrual of fines shall start on April 25 - in regard with the outstanding amount of the profit tax at the rates provided by Article 23 of the Law of the Republic of Armenia "On Taxes".

#### **Article 45. Peculiarities of the Profit Tax Payments Made by Taxpayers in the Process of Insolvency**

1. According to the legislation regulating the insolvency of banks, the taxpayer bank shall suspend the payments of the profit tax beginning from the day when a court decree on the liquidation of the bank and appointment of the liquidating administrator enters into force, until the turn comes for the satisfaction of the state budget claims, pursuant to the succession of the satisfaction of creditor claims established by the Law.
2. According to the legislation regulating the insolvency of **organizations**<sup>9</sup>, the payments of the profit tax shall be suspended from the day when a court decree on recognition of the taxpayer as insolvent enters into force, until the

<sup>9</sup> with amendment of 26.12.2000

turn comes for the satisfaction of the state budget claims, pursuant to the succession of the satisfaction of creditor claims established by the Law.

#### **Article 46. Peculiarities of the Profit Tax Payments Made by Taxpayers in the Process of Liquidation**

The payments of the profit tax made by a taxpayer liquidated without entering the process of insolvency shall be suspended from the day when a court decree on liquidation enters into force, until the turn comes for the satisfaction of the state budget claims, pursuant to the succession of the satisfaction of the creditor claims established by the Law.

#### **Article 47. Payment of the Profit Tax**

A taxpayer must pay the amount of the profit tax to the state budget prior to April 25 (inclusive) of the year following the reporting one.

#### **Article 48. Correction of Profit Tax Calculations**

In cases when a taxpayer finds errors in the calculation of the profit tax submitted for the previous reporting periods (which are not observed in the records of the accounting), the taxpayer may submit to the Tax Inspectorate a corrected calculation, on the basis of which the recalculation of tax liabilities for the periods in question shall be produced, in accordance with the procedure established by the Law.

#### **Article 49. Set-off of the Amount of the Profit Tax Paid from the Income Received in Foreign Countries**

The profit tax levied on the amount of the profit of a taxpayer in the Republic of Armenia shall be reduced in the amount of the profit tax withheld from the residents in foreign countries in accordance with the legislation of the mentioned countries. Along with this, the amount of the reduced profit tax may not exceed the amount of the profit tax to be paid in Armenia, in accordance with this Law, on the income received in a foreign country.

**If the amount subject to deduction according to the first section of this article exceeds the profit tax liability raised based on results of the reporting period, the exceeding amount shall be deducted from profit tax amount of the succeeding years** (with supplement of 26.12.2000).

## **PART 2. TAXATION OF A NON-RESIDENT**

### **Chapter 9. General Provisions**

## **Article 50. Income Received from Armenian Sources**

1. For the purposes of this Law the following income shall be treated as income received from Armenian sources:
  - a) income derived from the business activity implemented by a non-resident in the territory of the Republic of Armenia;
  - b) passive income of a non-resident received from a resident or a non-resident;
  - c) other income derived by a non-resident in the Republic of Armenia;
2. The following income shall be considered as income derived from business activity in the territory of the Republic of Armenia:
  - a) income derived from the sales of goods and products, provision of services in the Republic of Armenia, irrespective of the place of payment;
  - b) income derived from mediatory activities in the Republic of Armenia;
  - c) income derived from administrative, financial and insurance services, provided that this income is considered as expense for the paying subdivision or place.
3. Income received by a non-resident exclusively from the activity of third persons in the territory of the Republic of Armenia through the investment (provision) of the property or other assets, shall be considered as passive income, including in particular:
  - a) dividends;
  - b) interest;
  - c) royalties;
  - d) income from the lease of property located in Armenia;
  - e) increase in the value of property or other assets, resulting from the alienation of the property or other assets located in Armenia;
  - f) other passive income.
4. Income not mentioned in the preceding paragraphs and received from the following sources shall be considered as other income (with amendment of 30.12.98.):
  - a) administrative services;
  - b) provision of necessary assistance for the effective use of property or rights;
  - c) provision of necessary assistance in installation and exploitation of equipment, assembly lines of mechanisms and devices;
  - d) insurance payments received as a result of insurance, unless provided otherwise by the legislation of the Republic of Armenia, as well as insurance benefits;
  - e) consultation, assistance, or other services related to the management of any scientific, industrial or commercial project, plan, process or a joint enterprise;
  - f) consultations and services rendered by foreign companies to their subsidiaries in connection with the business activity of the latter in the Republic of Armenia, as well as consultations and services rendered by the head office of a non-resident in favor of its subdivision;
  - g) freight of goods;
  - h) import of goods from foreign countries on terms of the trade mediation with enterprises and the sales in the Republic of Armenia. Whereas, in this case the difference paid to a non-resident between the price established by the latter and the more profitable price of sales (at which the mediator enterprise actually implemented the sales of goods imported for realization) or the part

of difference, belonging to a non-resident, shall be considered income from Armenian sources.

### **Article 51. Subdivision and Place of Business of a Non-Resident**

The separate subdivision of a non-resident registered in the Republic of Armenia shall be considered as the subdivision of a non-resident.

1. The place of actual implementation of business activity of a non-resident, not possessing a separate subdivision in the Republic of Armenia, shall be considered as the place of business.
2. Offices, agencies, plants, factories, workshops, pits, mines, oil or gas wells, quarries or places of research, extraction and exploitation of natural resources, places of building activities implemented by a contract, installation, assembling, arrangement and research, places of provision of services on the supervision of equipment, consulting and other specialized services on the supervision of the mentioned activities, may be considered as places of business.  
In case when the activity is carried out through a business agent, the place of location of the business agent shall be considered as the place of business of a non-resident.
3. Business agent is a legal person considered to be a resident, enterprise without the status of a legal person, or an individual, whose activity is controlled by the non-resident through a letter of authority, trust administration contract, a power of attorney, or in any other way, and who performs the activity for a non-resident (authorizing person), for the following purposes:
  - a) organization of purchases, arrangement of purchases and signing of other agreements;
  - b) establishment of contractual agency relationships with a third party, regular accumulation and storage of goods, belonging to the authorizing person, delivery of such goods to other persons on behalf of the authorizing person;
  - c) representation of the authorizing person when signing trade agreements or performing purchase orders.

## **Chapter 10. Determination of the Taxable Profit for a Non-Resident**

### **Article 52. Peculiarities of Defining a Taxable Object**

1. For the purposes of this Law the activity related to the import of goods belonging to a non-resident into the Republic of Armenia (on the availability of customs documents for the goods and absence of mediator - agents in the operation in question) performed exclusively on behalf of the non-resident, in the case of which the resident becomes the owner of the goods prior to their crossing the state border of the Republic of Armenia, shall be considered as external economic activity.
2. Income received from the external economic activity of a non-resident shall not be subject to taxation.
3. In case when some conditions different from the usual practice occur between a non-resident and a third person, the Tax Inspectorate bodies may make tax

adjustments, in accordance with the procedure established by the tax legislation, in respect of any income which might have been accounted by the taxpayer, however was not, due to the current conditions.

4. In case when a non-resident performs the activity not only in the Republic of Armenia but also outside it without keeping separate accounting, thereby preventing the determination of the taxable profit derived from the activity implemented through the subdivision, or place of business, the taxable profit may be determined on the calculation basis - according to the method agreed by the Tax Inspectorate and the taxpayer. The method agreed shall serve as a basis for determination of taxable profit, until there is a weighty reason for changing it.
5. Taxable profit derived from the activity of a subdivision, or place of business in the Republic of Armenia may be determined based on the share of the total revenue from the sales of goods (services) derived from the activity in the Republic of Armenia in the gross revenue from the activity of a non-resident, as well as on the share of expenses related to the activity implemented in the Republic of Armenia, in the total expenses of a non-resident or on the share of employees of a non-resident working in Armenia in the total staff of the non-resident.
6. For the purposes of the profit tax calculation, in cases provided by Article 22 of the Law of the Republic of Armenia "On Taxes", the Tax Inspectorate body may exercise the right defined by the paragraph 2 of the Article in question.

#### **Article 53. Reduction of the Gross Income**

1. When determining the taxable profit of a subdivision, or place of business, a non-resident may deduct from the gross income the expenses incurred in the Republic of Armenia for the purposes of his/her subdivision or place of business in the amount of losses incurred in connection with the activity implemented in the Republic of Armenia - on the basis of a declaration submitted according to the procedure established by this Law. Along with this, the expenses not supported documentary and the actual losses may be distributed between the non-resident and his subdivision, or place of business in the Republic of Armenia. The distributed expenses shall include, in particular, management and general administrative expenses incurred both in the Republic of Armenia and outside it.
2. When determining taxable profit of a subdivision, the gross income thereof shall be reduced also in the amount of other deductions defined in this Law, with the exception of those defined in Articles 24,25 and 26.
3. Income derived by a non-resident from Armenian sources may be recognized by the Tax Inspectorate as a result of a business activity performed by a non-resident through a place of business in the Republic of Armenia, in case when the documents attesting this business activity are submitted by a non-resident to the Tax Inspectorate.

#### **Chapter 11. Procedure and Terms of the Calculation and Payment of the Profit Tax**

## Article 54. Profit Tax Rates for a Non-Residents

1. Taxation of the income derived by a non-resident in the Republic of Armenia from Armenian sources shall be performed by a tax agent at the source of paying income. The profit tax shall be withheld (imposed) by tax agents, according to the procedure established by Article 64 of this Law, at the source of paying the income derived by a non-resident from Armenian sources, at the following rates:

Type of income	Amount of the Profit Tax
Insurance compensation, reinsurance payments and income received from the freight	5%
dividends, <b>interests</b> <sup>10</sup> , royalty, income from the lease of property, increase in the value of property and other passive income (with the exception of the income received from the freight) as well as other income received from Armenian sources	<b>10%</b> <sup>11</sup>

**Dividends received by non-residents from Armenian sources by the rate defined by the first section of this clause shall be taxed by rate of zero, provided that the following conditions are in place at the same time:**

- a) non-residents gaining dividends are not subject to profit taxation in the country of residence**
- b) participation (share, stock) dividends are gained from, belonged to the non-resident no less than 2 calendar years**
- c) in charter fund of resident distributing dividends, the participation of non-resident gaining dividends within the two calendar years preceding the day of payment of dividends, made no less than 25 percent**
- d) non-resident gaining dividends is their actual owner**
- e) the organization distributing dividends is presented a certificate issued by tax entity by order established by the Government of the Republic of Armenia, stating that the non-resident gaining incomes meets all requirements specified in points “a” and “d” of this section (with amendment of 26.12.2000).**

2. The amounts withheld (imposed) by a tax agent at the mentioned rates shall be considered as the final amount of the profit tax paid by the non-resident in the Republic of Armenia, with the exception of the cases when non-resident performs activities the Republic of Armenia through a subdivision, or a place of business recognized by the Tax Inspectorate, and this income results from the activity of the subdivision or the place of business in question.

<sup>10</sup> with supplement of 26.12.2000

<sup>11</sup> with amendment of 26.12.2000

### **Article 55. Exemption from Withholding of the Profit Tax at the Source**

In case when the income paid to a non-resident from Armenian sources results from the activity of a subdivision, the latter shall submit to the tax agent a reference, confirmed by the corresponding Tax Inspectorate body of the Republic of Armenia, about the registration in the Tax Inspectorate bodies, and the availability of a taxpayer's indemnification number, on the basis of which the non-resident shall be exempt from withholding (imposing) the profit tax at the source, with the exception of withholding the profit tax at the source for dividend payments, in cases defined by this Law.

### **Article 56. Advance Payments of the Profit Tax for a Non-Resident**

In case when the amount of the profit tax of a non-resident performing activities through a subdivision exceeds 2 million drams for the preceding year, the non-resident shall make advance payments of the profit tax in equal parts every six months of a year, in the amount of  $\frac{1}{4}$ -th of the actual amount of the profit tax for the preceding year, up to July 1 and December 31 of the reporting year.

### **Article 57. Returns on the Annual Income**

1. A non-resident shall submit the returns on the annual income to the Tax Inspectorate, as well as a report about his/her activity **in the arbitrary form (chosen by a non-resident himself)** (with amendment of 30.12.98.) prior to April 15 of the year following the reporting one. All the income received from Armenian sources shall be included in the returns. The form and the procedure on filling up the returns shall be worked out and approved by the Tax Inspectorate of the Republic of Armenia.
2. In case of cessation of the activity of a non-resident prior to the termination of a calendar year the above-mentioned documents must be submitted in the course of a month beginning from the day of the cessation of the activity.

### **Article 58. Calculation of Profit Tax by the Tax Inspectorate**

1. The calculation of the profit tax of a non-resident possessing a subdivision, or place of business in the Republic of Armenia, shall be made by the Tax Inspectorate on the basis of the annual returns submitted by a non-resident (or authorized person), taking into account the provisions of this Law and based on the rates defined in Article 33.
2. The amount of the profit tax subject to pay in the reporting year shall be defined as the difference between the amount of the annual profit tax received from the activity and the amount of half-year advance payments (in the defined cases also in the amounts of the profit tax withheld in the Republic of Armenia).



### **Article 59. Payment Notification About the Profit Tax**

Within 10 days after submitting the returns, the taxpayer shall receive a payment notification in the form established by the Tax Inspectorate about the final amount of the calculated profit tax.

### **Article 60. Final Calculation**

The profit tax, subject to the additional payment to the budget after the calculation (final calculation) performed according to the established procedure, shall be paid or the repayment shall be compensated in the course of a month after receiving the payment notification, according to the procedure established by the legislation of the Republic of Armenia.

### **Article 61. Withholding of the Profit Tax at Source**

Pursuant to Article 57 of this Law, withholding (imposing) of the profit tax at the source shall be performed by a tax agent from the total amount of the income paid to a non-resident.

### **Article 62. Recounting of the Income Received In-Kind**

In case of paying income in-kind (including barter transactions), the tax agent shall recount the income into money, according to the procedure and terms specified by the legislation of the Republic of Armenia, and shall pay the profit tax to the budget.

### **Article 63. Terms of Payment of the Profit Tax Withheld by a Tax Agent and Submission of Calculations**

The amount of the profit tax, withheld (imposed) in accordance with Article 64 of this Law, shall be paid by a tax agent to the budget within 3 banking days. Along with this, the tax agent must submit quarterly a summary calculation (report) pursuant to the established form to the Tax Inspectorate of his/her location, not later than on the first day of the second month of the following quarter, on the amounts of the income paid to non-residents in the preceding quarter and on the amounts of the profit tax withheld and paid to the budget.

### **Article 64. Issue of a Reference on the Taxes Paid**

On the basis of the application of a non-resident, the Tax Inspectorate shall issue a respective reference on taxes paid by the non-resident in the Republic of Armenia in accordance with this Law.

The amount of the profit tax in the mentioned reference shall include also the amount that was to be paid in the Republic of Armenia, however was not, in consequence of using tax privileges defined by this Law.

#### **Article 65. Tax Control**

The Tax Inspectorate is entitled to check financial, accounting and tax activities of the non-residents implementing business activity through a subdivision, or place of business in the Republic of Armenia, and to check the correctness of withholding the profit tax by a tax agent and the payment thereof to the budget.

### **PART 3. CONCLUDING PROVISIONS**

#### **Chapter 12. Responsibilities for the Violation of this Law**

##### **Article 66. Responsibilities of Taxpayers and Their Officials for the Violation of this Law**

For the violation of this Law the taxpayers and their officials shall bear responsibility pursuant to the procedure established by the legislation of the Republic of Armenia.

**Penalties, provided for the concealment of the taxable object or its reduction, shall not be applied to those taxpayers, who have revealed the incomplete calculation of the profit tax in the previous years by themselves, performed corresponding notes in the accounting and informed about it the Tax Inspectorate of the place of their registration in a written form (with amendments of 28.07.98.).**

##### **Article 67. Responsibility of a Tax Agent**

Pursuant to the provisions of this Law, in the event of the failure to withhold (impose) the profit tax at the source, the tax liability (and the penalties for the failure to pay the profit tax to the state budget in the accordance with the procedure established by the legislation of the Republic of Armenia) shall rest upon the tax agent.

#### **Chapter 13. Concluding Provisions**

##### **Article 68. Departmental Normative Acts on the Application of this Law**

The departmental normative acts on the application of this Law shall be adopted by the Tax Inspectorate of the Republic of Armenia, in coordination with the Ministry of Finance and Economy of the Republic of Armenia, whereas the explanations on economic and other types of commercial activity shall be coordinated with the Department of Statistics, State Register and Analysis of the Republic of Armenia, and the explanations on marking the goods - with the Department of Standardization, Metrology and Certification of the Republic of Armenia.

#### **Article 69. Entry of the Law into Force**

1. This Law shall enter into force from January 1, 1998.
2. The Law of the Republic of Armenia "On Profit Tax", dated January 18, 1992 shall be declared void, including the amendments, from the moment of the entry of this Law into force.
3. **The fixed payments** (with amendment of 30.12.98.) shall be applied to the games with reward mentioned in Article 33 of this Law, organization of casinos, exploitation of playing machines with cash rewards and organization of computer games, as well as in other cases defined by the legislation of the Republic of Armenia, according to the procedure established by the legislation of the Republic of Armenia.

#### **Chapter 14. Transitional Provisions**

##### **Article 70. Application of Privileges**

1. Deductions defined in Article 25 of this Law shall be applied to the losses incurred after January 1, 1997.
2. Temporary privileges effective prior to the entry of this Law into force shall remain valid till the expiration of their validity period.
3. **For the newly created enterprises using a tax privilege pursuant to the legislation, which is effective prior to the entry of this Law into force, the validity period of a privilege established for the taxpayer (in question) by Article 39 of this Law shall be reduced in the duration period of the privilege, provided for the taxpayer prior to the entry of this Law into force.**
4. **For the purposes of this Law, income received in the form of interest and from the discount of treasury bonds and other state securities of the Republic of Armenia issued in 1997 shall not be considered as income** (with amendments of 23.05.98.).

##### **Article 71. Application on Depreciation Allowances**

1. In order to determine the amount of depreciation allowances defined in Article 12 of this Law in respect of the fixed assets as on January 1, 1998, the minimum depreciation (residual) period after January 1, 1998 shall be

determined as the product of the coefficient of the non-depreciated value and the minimum depreciation period of the corresponding group, defined in paragraph 2 of Article 12 of this Law:

$$T_m = (V - A) * T/V$$

Where:

$T_m$  – minimum depreciation (residual) period of the fixed asset purchased prior to January 1, 1998;

$V$  – balance value of the fixed asset as on January 1, 1998;

$A$  – total depreciation of the fixed asset as on January 1, 1998;

$T$  – minimum period of depreciation of the group of fixed assets defined in Article 12 of this Law.

2. Periods defined in paragraph 2 of Article 12 of this Law shall be considered depreciation periods for the fixed assets acquired after January 1, 1998.
3. For the purposes of calculation of depreciation allowances, the balance sheet value of the fixed assets as on July 1, 1997, or - for the entities submitting annual accounts of the profit tax - as on January 1, 1997, taking into account the accruals on the value of the fixed assets pursuant to Article 13 of this Law, shall be considered as the nominal value of the fixed assets.

**Article 72. Results of revaluation of foreign currency and other assets and liabilities expressed in foreign currency**

**Irrespective of the provisions of the second part of Article 8 and subclause “d” of Article 11 of this Law, the results of revaluation of the Russian ruble, and other assets and liabilities expressed in Russian rubles, shall be taken into account, when determining the taxable profit of a taxpayer for 1998 (with amendments of 30.12.98.).**