



Armenian Tax & Law Brief

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Introduction of new rates for the calculation of personal income tax, social payments and stamp fees in 2021

Personal income tax

On 25 June 2019, the RA Parliament adopted RA Law No. HO-68-N, which introduced amendments to the calculation of personal income tax rates. According to the amendments, personal income tax for the whole tax year of 2021 will be calculated at 22%, which is one percentage point less than the previous rate.

Social payments

On 25 June 2019, the RA Parliament adopted RA Law No. HO-72-N, which introduced amendments to the rates of calculation of social payments. According to the amendments, social payments for the whole tax year of 2021 will be calculated at the following rates:

- If the total monthly salary of the employee does not exceed AMD 500,000: 3.5%
- If the total monthly salary exceeds AMD 500,000: the difference between 10% of the total monthly salary and AMD 32,500
- If the total monthly salary exceeds AMD 1,020,000 (the Cap): the difference between 10% of the Cap and AMD 32,500.

Stamp fees

On 29 December 2020, the RA Parliament adopted RA Law No. HO-502-N, which introduced amendments to the calculation of stamp fees stipulated in the RA Law on "Compensation for Damage Caused to Life or Health of Military Personnel during Defense of the Republic of Armenia". According to the amendments, starting 1 January 2021 stamp fees will be calculated at the following rates:

Calculation Base*	Amount (AMD)
Up to AMD 100,000	1,500
From AMD 100,001 to AMD 200,000	3,000
From AMD 200,001 to AMD 500,000	5,500

From AMD 500,001 to AMD 1,000,000	8,500
For AMD 1,000,001 and more	15,000

Sole entrepreneurs and notaries will pay stamp fees at the following rates:

Calculation Base**	Amount (AMD)
Up to AMD 1,200,000	18,000
From AMD 1,200,001 to AMD 2,400,000	36,000
From AMD 2,400,001 to AMD 6,000,000	66,000
From AMD 6,000,001 to AMD 12,000,000	102,000
For AMD 12,000,001 and more	180,000

*For individuals not considered sole entrepreneurs or notaries, the calculation base is the salary and payments equal thereto and (or) income for work done (services rendered) based on civil law contracts.

**For sole entrepreneurs and notaries operating in the turnover tax system, the calculation base is the sales turnover reflected in the turnover tax reports filed for the reporting period for which the stamp fee is calculated.

For sole entrepreneurs operating in the microentrepreneurship system, the calculation base is the sales turnover reflected in the sales turnover report of the subject of microentrepreneurship.

For sole entrepreneurs and notaries operating in the general tax system, the calculation base is the gross income reflected in the CIT calculation.

If the taxpayer has been operating under more than one tax regime in a given reporting year, the calculation base is the total sum of corresponding calculation bases mentioned above.

Adoption of the RA Law on Providing Tax Exemptions During Martial Law

On 21 October 2020, during the period of martial law established in Armenia, the RA Parliament adopted the Law on Providing Tax Exemptions During Martial Law.

The law exempts from VAT, excise tax and (or) environmental tax the import of goods included on the Government's list having the status of an EEU good from EEU countries in case they were gratuitously supplied (by donation) to the Ministry of Defense, Ministry of Emergency Situations, Ministry of Territorial Administration and Infrastructure, Ministry of High-Tech Industry, or Ministry of Healthcare during the period of martial law.

Adoption of requirements for electronic cash registers

On 3 December 2020, the RA Government adopted a decree defining the technical and mandatory requirements for electronic cash registers and electronic tickets, as well as the requirements for websites or electronic applications (e-commerce platforms).

An electronic cash register is software that enables one to generate an electronic ticket for transactions for the supply of goods, performance of works or provision of services made via a website or an electronic application (e-commerce platform).

An electronic ticket is generated by the following sequence of steps:

- Transfer of mandatory information of the electronic ticket to the electronic management system of the tax authority,
- Receipt of a fiscal number in an electronic format from the electronic management system of the tax authority,
- Reflection of information on the electronic ticket of the electronic cash register.

The following sections of the decree introduce the technical requirements imposed on electronic cash registers, the procedure for their registration and deregistration, the mandatory information to be printed on the electronic ticket, and the requirements that the e-commerce platform must meet.

Adoption of measures aimed at narrowing the tax policy gap

On 30 December 2020, the RA Prime Minister adopted a decision to approve measures aimed at narrowing the tax policy gap. The tax policy gap is defined as the total sum of tax revenue that is not collected or under-collected due to tax legislation.

The list of measures approved by the Prime Minister is as follows:

- Preparation and submission to the Government for discussion of a draft law envisaging amendments to the RA Tax Code aimed at curtailing tax privileges that are inefficient or non-targeted,
- Preparation and submission to the Government for discussion of a draft law that increases turnover tax rates,
- Preparation and submission to the Government for discussion of a draft law that reduces the turnover tax threshold,
- Preparation and submission to the Government for discussion of a draft law that limits the opportunity to make deductions from the corporate income tax base based on invoices issued by taxpayers working in the microentrepreneurship system,
- Preparation and submission to the Government for discussion of a draft law introducing a system for the declaration of income,
- Settlement of issues related to the documentation of transactions for the sale of agricultural products.

Amendments and supplements to the RA Tax Code

By adopting RA Law N HO-507-N, which makes amendments to the RA Tax Code, the legislature has extended the end date until which taxpayers may set the useful lives of fixed assets at their discretion but for not less than a year. The end date has thus been moved to 31 December 2021.

By adopting RA Law N HO-498-N, the legislature has introduced amendments and supplements to the chapter on road tax of the RA Tax Code, which entered into force on 1 January 2021. In particular, the changes related to the calculation of the tax rate applied to billboards placed on interstate, republican and regional highways

(except for transit sections passing through the borders of settlements), as well as on reserved lanes of those highways and protection zones; they also related to the procedure for the calculation thereof and payment.

Amendments to the Labor Code of the Republic of Armenia (With respect to Paternity Leave)

Pursuant to the Amendments to the Labor Code of the Republic of Armenia HO-415-N dated 16 September 2020, the concept of paternity leave has been introduced.

In particular, the Law provides that within 30 days from the date of birth of a child, at the request of the father of the newborn child, a paid vacation of 5 working days shall be provided. Furthermore, the employer shall pay their employee, i.e. the father, the minimum daily salary for each day of vacation.

This regulation enters into force starting from 1 January 2021.

Apart from the above, it was also prescribed that the material conditions, except for the title of the position and/or rank, of the work of an employee who is an actual caregiver of a child and who is not on vacation, cannot be worsened within the period of care of the child aged up to 1 year.

Furthermore, an employee who is an actual caregiver of a child and who is not on vacation cannot be terminated within the period of care of the child aged up to 1 year on the grounds of (i) failure to meet the requirements of the position held or work performed, or (ii) not showing up at work for a full working day without good reason.

Amendments to the Labor Code of the Republic of Armenia (With Respect to Martial Law)

Pursuant to Law no. HO-460-N dated 09 October 2020, the following amendments have been introduced to the Labor Code of the Republic of Armenia, addressing certain issues which may arise due to martial law and/or employees undergoing military service, including volunteers:

1. Employees conscripted to the military or participating on a voluntary basis in military action

to defend the Republic of Armenia or other countries based on mutual military assistance treaties shall be relieved of their job responsibilities with their job (position) being retained.

2. In the cases mentioned above, employees shall be relieved of their job responsibilities on the grounds of a notice of conscription or statement on engagement in voluntary service issued by the defense state authority.

Such employees, apart from respective payments from the state budget, shall also be paid remuneration for the period during which they were relieved of their job responsibilities - based on an agreement between the employer and employee or a collective agreement, unless the law provides otherwise.

3. The period of participation in military action on a voluntary basis to defend the Republic of Armenia or other countries based on mutual military assistance treaties shall be counted towards the work period (job seniority) of employees not conscripted to the military, i.e. volunteers. As opposed to previous regulations, only the period of military conscription was counted towards the work period.

4. Furthermore, the work period for which annual vacation is provided shall also include the period of participation in trainings, military call-ups, or participation, on a voluntary basis, in military actions for the defense of the Republic of Armenia or other countries based on mutual military assistance treaties.

5. In case martial law is declared, a change of workplace of employees of both the public sector and those private companies which due to martial law have passed under the control of the state government or a respective state body shall not be considered as a change of material terms of employment. Hence, no advance notice about a change of workplace shall be served to such employees.

6. In case martial law is declared, employees of both the public sector and those private companies which due to martial law have passed under the control of the state government or a respective state body can be recalled from annual leave without their consent.

The unused part of annual leave shall be provided to such employees in accordance with the general regulations of the Labor Code.

Salary shall be paid to employees recalled from annual vacation on the above-mentioned grounds, regardless of whether payment for annual leave has been made.

7. In case employees of the public sector or those private companies which, due to martial law, have passed under control of the state government or a respective state body are engaged in work due to martial law, no overtime or night work premiums, or premiums for working on holidays, shall be paid to them.

In the above-mentioned case, the period of participation in military action shall not be considered when calculating the average salary of the employee.

The above-mentioned provisions shall have retroactive effect, i.e. they shall be considered binding for employment relations that arose prior to the effective date of these amendments (11 October 2020).

Amendments to the Law “On Administrative Violations” of the Republic of Armenia (With Respect to the Violation of Martial Law)

Law no. HO-456-N, dated 09 October 2020, introduced amendments to the Law “On Administrative Violations” of the Republic of Armenia (effective from 10 October 2020), pursuant to which a new type of administrative penalty has been introduced, i.e. suspension of the economic activity of the organization.

Suspension of the economic activity of the organization shall imply the temporary termination of the activity of the organization for a period of 1-3 months.

Suspension of economic activity, as an administrative penalty, can be imposed mainly for violations of the rules in effect during martial law committed after already being sanctioned for the same violation. Such violations include, *inter alia*, violating restrictions on certain financial and economic activity, violating the special procedure for the sale, acquisition and turnover of food, medication and necessity goods, etc.

Amendments to the Law “On Administrative Violations” of the Republic of Armenia (With Respect to the Quarantine Regime)

Law no. HO-405-N dated 4 September 2020 (effective from 09 September 2020) introduced amendments to the Law “On Administrative violations” of the Republic of Armenia, pursuant to which the following actions or inactions shall constitute violation of the quarantine regime and shall entail administrative liability, mainly in the form of fines:

1. Violating the special regime for entering and exiting a quarantine area established by a decision to introduce quarantine – a fine of AMD 50,000-70,000;
2. Violating restrictions on the free movement of individuals or means of transportation during the quarantine, as well as hinderance of examination thereof – a fine of AMD 10,000;
3. Violating restrictions on carrying out certain types of economic activity or provision of services during quarantine, as well as violating restrictions on activities of organizations not engaged in economic activity – a warning or fine of AMD 100,000-300,000;

Committing the same violation within one year period from the date of the fine shall incur another fine of AMD 150,000-500,000;
4. Violating restrictions on organizing or holding meetings during quarantine – a fine of AMD 50,000-200,000;
5. Violating restrictions on participating in meetings during quarantine – a fine of AMD 10,000;
6. Violating restrictions on organizing, holding or participating in public events during quarantine – a fine of AMD 50,000-200,000;
7. Violating restrictions on routine transportation during the quarantine, as well as hinderance of investigation thereof – a fine of AMD 50,000-100,000;

8. Violating isolation or self-isolation rules during the quarantine – a fine of AMD 50,000-200,000;
9. Violating personal protection rules during quarantine - a fine of AMD 10,000.

Violations listed in Sections 1, 2, 5-7 and 8 shall be investigated by the Police of the Republic of Armenia; violations under Section 3 and 4 shall be investigated by the health department or food safety agency, accordingly.

Amendments to the Law of the Republic of Armenia “On Bankruptcy”

Pursuant to the Amendments to the Law of the Republic of Armenia “On Bankruptcy” HO-445-N dated 18 September 2020, effective from 12 October 2020, the thresholds for declaring an entity bankrupt have been increased.

In particular, a person shall be eligible for being declared bankrupt in case of default of an undisputable payment obligation in the amount of AMD 2,000,000 (as opposed to the previously existing regulation which stipulated AMD 1,000,000) for 90 or more days (as opposed to the previously existing regulation which stipulated 60 or more days).

Amendments to the Law of the Republic of Armenia “On Environmental Control”

Pursuant to the Amendments to the Law of the Republic of Armenia “On Environmental Control” HO-452-N dated 6 October 2020, effective from 17 October 2020, “observation” is envisaged as a new type/method of environmental control in addition to already existing measures, such as examination and inspection. The rationale behind this amendment is to ensure efficiency in preventing and mitigating harmful effects on the environment caused by the economic activities of companies.

In particular, observation is performed based on the decree of the head of the respective department, which shall, *inter alia*, include the scope and timeframe of observation. The decree itself shall be issued based on the respective memorandum of the head of the territorial division

of the department performing environmental control.

Observation shall be performed without prior notification. Prior to commencing observation, the observed entity shall be provided with the decree for information purposes.

The following actions may be performed in the course of observation:

- a) Warning on violation of the provisions of environmental law;
- b) Suspension of actions of the observed entity in case those actions are harmful to human rights or health, interests of the state or the environment;
- c) Confiscation of hunting tools;
- d) Collection of samples for expertise examination.

No liability can be imposed in case of violations or non-compliance identified in the course of observation.

Observation at each entity can be performed only for 2 consecutive business days.

Upon completion of observation, a protocol shall be composed. An entity shall have the right to submit objections and explanations.

Once a warning is issued to the observed entity, the inspector shall stipulate the measures and timeframes for eliminating the consequences of such violation. An entity shall be obliged to inform the respective officials of the implementation of the measures prescribed within 2 business days after the expiry of the stipulated timeframe. If the respective officials are not informed, an inspection may be performed at the said entity.

A report on the observations performed during each quarter shall be published on the official website of the department, and shall be submitted to the respective coordinating office of the Staff of the Prime Minister.

Apart from the above, the law also introduces a new type of sanction, i.e. suspension of activities or actions of the entity, in addition to the already envisaged ones – the termination and prohibition of activities. In particular, a decision on suspension can be taken in the course of an inspection by the relevant administrative authority when certain

violations are identified, which include *inter alia* the following:

- an entity is using water without obtaining permission to use water;
- an entity is engaged in mining without obtaining rights to mining;
- an entity is engaged in an activity without a positive recommendation with regard to the environmental impact assessment when such recommendation is required by law;
- an entity utilizes hazardous waste of the 1st, 2nd or 3rd categories without a license;
- an entity continues its activities while there is an administrative act which suspends or terminates the rights thereof;
- in case of violation of environmental legislation which causes immediate harm to human rights or health, to interests of the state, or to the environment, etc.

Inquiries may be directed to either of the following executives:



Kamo Karapetyan
Director | Head of Tax Practice in Armenia
EY Armenia
1 Northern Ave., office 27, Yerevan, Armenia
Office: +374 (10) 50 07 90, ext.2612
Mobile: +374 (99) 88 67 00
Kamo.Karapetyan@am.ey.com



Levon Gevorgyan
Senior Manager | Head of Law Practice in Armenia
EY Armenia
1 Northern Ave., office 27, Yerevan, Armenia
Office: +374 (10) 50 07 90, ext.2632
Mobile: +374 (99) 88 37 17
Levon.Gevorgyan@am.ey.com

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