

GENERAL INFORMATION PERTAINING TO INCOME TAX AND INCOME DECLARATION

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1. WHAT SHOULD ONE KNOW ABOUT INCOME TAX AND DECLARATION OF INCOME TAX?

INCOME TAX

Income tax is a type of government tax paid by **RA resident and non-resident natural persons** to the State budget.

Income tax is calculated on the taxable income(s) of an individual, which is determined as the positive difference between the income received on any basis (including in kind) and the deductible (non-taxable) income of the given person during the reporting period.

Deductible incomes are those incomes that are not subject to income tax in RA.

A natural person who is an individual entrepreneur or a notary pays income tax only from his personal taxable income (that is, from income that is not regarded as income from entrepreneurial and notary activities).

The obligation to settle and pay the income tax is fulfilled by party paying income to the individual, that is organization, individual entrepreneur or the notary (hereinafter, the tax agent) registered as taxpayer in the RA tax authority,

The natural person shall settle (pay) the income tax autonomously, if:

→ the individual receives income from a person who is not a tax agent

And (or)

→ the tax agent paying income to the natural person is exempt from the obligation to settle (withhold) and pay the tax.

The natural person (in case of minor individual – the parent or guardian or trustee shall autonomously settle and pay the income tax based on the following returns furnished to the tax authority in electronic form:

SIMPLIFIED TAX RETURN

And (or)

TAX RETURN (DECLARATION)

Income tax is settled at varying rates driven by the type of income (incomes) received by the natural person.

Sanctions shall be applied for failure by the natural person to submit the tax returns within the deadline, and to pay the tax.

INCOME DECLARATION

In 2023-2025, within the framework of universal declaration of individuals' incomes launched in the RA, only **RA resident citizens of the RA (except for minors)** must report all their incomes (including deducted (non-taxable) and those paid by tax agents) to the tax authority in electronic form.

TAX RETURN (DECLARATION)

Tax return (Declaration) is furnished also when the individual has had no income in that year.

In addition to income declaration, submission of Tax return (Declaration) in some cases will enable the individuals to collect social credits (tax refund) for the expenses (social expenses) made for education and health insurance.

The process of income declaration will be implemented in three phases – 2023, 2024, and 2025, based on the groups of declarants (**see paragraph 4 herein**).

The natural person shall furnish the Tax return (Declaration) to the tax authority electronically.

The Tax return (Declaration) is filled in by the natural person independently. Moreover, some sections of the Tax return (Declaration) are populated automatically.

For 2023 and 2024 the Income Tax Return (Declaration) shall not be submitted by individuals whose data is defined by the legislation as classified (confidential) **regarding taxable income qualified as classified (confidential)**.

Failure by individuals to submit their Tax return (Declaration) by due date shall imply imposition of sanctions.

2. THE NATURAL PERSON'S STATUS, TYPES AND SOURCES OF INCOME: USEFUL INFORMATION

NATURAL PERSON

Natural persons can be:

Citizens of RA - individual who has obtained RA citizenship in accordance with the RA legislation.

Foreign citizens – individual who does not hold the citizenship of the RA, who holds citizenship of another State.

Stateless person – individual who is not RA citizen but resides in Armenia with no evidence of another country's citizenship.

NOTE: If the natural person has dual citizenship, such person is recognized only as RA citizen.

RA RESIDENT NATURAL PERSON

The person who has factually been 183 + days in Armenia in the fiscal year shall be regarded as RA resident natural person. The fiscal year is the period between January 1 and December 31 inclusive of any given year.

Full days of factual presence in the RA are the dates of arrival in and departure from Armenia, irrespective of the number of hours the natural person actually spend in Armenia during those days.

Resident natural person is also:

- the person whose center of vital interests are based in Armenia. The center of vital interests is the place where the individual's family or economic interests are based. Specifically, it is considered that the individual's vital interests are based in Armenia, if his home or apartment, family, occupation, or place of activities are based in Armenia.
- Individual who is fulfilling governmental service in Armenia – temporarily working outside Armenia.

NOTE: If the natural person, as of any date in a fiscal year, is regarded as resident, such person shall be regarded as resident for the whole year.

RA NON-RESIDENT NATURAL PERSON

Individual who is not RA resident natural person shall be regarded as RA non-resident natural person.

NOTE: According to international practice, the standards of determining individual's residency are established by domestic legislation of that State. Meanwhile, there may be cases when the same natural person is a resident of two States simultaneously. In such cases it is recommended to the natural person to apply to respective authorities of those States to settle the issue by consensus, taking as a basis the priorities determined by international rules.

TYPES AND SOURCES OF INCOME

Natural person's taxable income is determined as the positive difference between the income received on any grounds (including in-kind) and the deductible (non-taxable) income in the reporting period.

Complete definition of income, explanation, specificities of settlement and determination thereof, as well as cases of deduction of income, are provided in Annex 1 of this Guideline.

Natural persons can receive income:

- from RA sources,
- from sources outside RA.

In case of resident natural person, the taxable income is formed from incomes received from sources located in the RA and outside the RA.

In case of non-resident natural persons, taxable income is formed only from income received from the sources in the RA.

RA sources include the following:

- Remuneration (funds used to compensate for labor) received within the framework of employment contracts concluded with the non-resident profit taxpayers operating in the RA via resident taxpayers and (or) permanent establishment.

- Income from the provision of service or performance of work under civil law contract, if such contracts were concluded with non-resident profit taxpayer operating in the RA via resident taxpayer and (or) resident mission.
- Royalty received from resident company, permanent establishment of non-resident, or RA citizen natural person (including individual entrepreneur, notary).
- Dividend received from participation (share, stock, unit) in the resident company's statutory or equity capital or from joint venture as stipulated by the RA Tax Code (hereinafter, Code).
- Interest received from a resident company or permanent establishment of non-resident or a natural person who is a citizen of the Republic of Armenia (including an individual entrepreneur, a public notary).
- Rental payment received from:
 - ▶ In exchange for the provision of the right (lease) of possession and (or) use of real estate located in the territory of the Republic of Armenia.
 - ▶ in exchange for the lease of movable property, if the movable property (except aircraft) is located in the territory of the Republic of Armenia at the time of signing the lease agreement;
 - ▶ during the validity period of the movable property lease contract, if the movable property (except aircraft) is registered (subject to registration) in the Republic of Armenia in accordance with the procedure established by the legislation of the Republic of Armenia.

NOTE: In connection with the real estate rental transaction, it is necessary to consider that the mentioned transaction will be considered an illegal business activity if:

- the titles arising from the real estate lease transaction have not been registered with the state,
- the natural person did not settle the income tax on the income received from real estate rental,
- the natural person did not submit a statement to the tax authority regarding the title to income from the real estate within 5 days following the date of actual occurrence of such title.

The declaration form and the competition procedure is approved by the order of the RA SRC Chairman No. 1263-N of 01.12.2023.

In addition to the above-mentioned types of income generated from sources based in the RA, all other income received by the natural person from a resident company or permanent establishment, or a RA citizen natural person, individual entrepreneur and public notary shall also be regarded as income generated from RA based sources.

Where it is impossible to assign the income to sources not based in the RA, such income shall be regarded as income generated from RA based sources in full volume.

Income not taxable by income tax in the RA shall qualify as natural person's deductible income.

Deductible income includes:

- Allowances, pensions.
- Insurance indemnities, money received through banks or credit organizations from insurance indemnities,
- Additional funds from cumulative allocations received from the state budget, income (interest) received from the management of cumulative contributions,

- Military servicepersons' in-kind income, and financial provisioning for conscripts, lump-sum payment for fallen and disabled servicemen,
- Social assistance, alimony, income from donation,
- Compensations paid to workers,
- Property and funds received as inheritance and (or) donation,
- Assets, works, services received gratuitously from non-commercial organizations,
- Income received gratuitously from RA state and local self-government bodies, foreign States and international organizations,
- Income received from individual entrepreneurs and natural persons who are not notaries from the alienation of property owned by them,
- Scholarships, compensation of damage, loans and credits,
- One-time lump sum assistance in case of death of an employee or a member of the employee's family,
- Awards received as part of the RA national team,
- Winnings, prizes, rewards,
- Deposit compensation received from the Deposit Guarantee Fund,
- Reimbursement of monetary deposits invested in the USSR Savings Bank and the ASSR Bank,
- Income generated against the property taken for eminent domain,
- Health insurance premiums,
- Penalties accrued for the amounts to be returned from the unified account,
- Income from the activity of carrying out transportation by one passenger taxi car,
- Refunds received by the autonomous energy producer,
- Revenues from sale of agricultural products,
- Income from securities,
- Compensation received from the Compensation Fund,
- Income from sale of land,
- Income from sale of precious metals and stones in gold markets,
- Income from forgiving the debt,
- Income from sale of vehicles under trade-in,
- Income from banks and credit organizations from alienation of property.

USEFUL INFORMATION

CASES WHEN THE NATURAL PERSON'S INCOME IS NOT TAXABLE:

Natural person shall not generate taxable income, if in the reporting year (month or year):

- the natural person has not received any income,
- the natural person has received only deductible income,
- income paid to the natural person in accordance with the provisions of international treaties (agreements, convention) ratified by the RA shall be exempt from income tax,
- the natural person's income is the output of the entrepreneurial or notarial activities of the individual entrepreneur or notary,
- income of non-resident natural person is the output of the permanent establishment in the RA or attributed to the permanent establishment:
 - ▶ A permanent establishment is the place of activity in RA registered as a taxpayer in the tax authority, through which a non-resident natural person carries out business activities, in accordance with the procedure established by the Code.
- Income of the non-resident natural person is generated from foreign economic activity.
 - ▶ Foreign economic activity (FEA) is the supply of goods by a non-resident to a resident profit taxpayer, where it is substantiated by the import documents that import was carried out on behalf of the resident profit taxpayer irrespective of the fact of transfer of the right of ownership over the goods in the territory of the Republic of Armenia. FEA includes also packaging, loading, transportation, unloading, accompanying, insurance of goods and other similar works performance and/or provision of services directly related to the transaction on supply of goods, where such works have been performed and/or the services have been provided by a non-resident supplier, pursuant to the contract on supply of goods.

METHODS OF ACCOUNTING (ACKNOWLEDGING) THE NATURAL PERSON'S INCOME

The natural person's income is accounted (acknowledged) via two methods based on the type of income. These methods include accrual basis accounting and cash basis accounting of income.

→ Accrual basis:

Accrual method of accounting means that the natural person keeps records of the income from the moment of obtaining the right to receive such income, irrespective of the time of receiving the refund (payment).

The accrual method of accounting is applied to:

- ▶ salary and other fees equivalent thereto,
- ▶ income from the alienation of participation in the statutory (share) capital of the organization in the form of a building, apartment, private house or other building (share, share, share) or other securities evidencing an investment, if such alienation is carried out in the form of participation (share) in the statutory or share capital in the fiscal year including the date of acquisition or the 3 fiscal years following it.

→ Cash basis:

Cash basis means that the natural person's income is accounted from the time such refunds are received (paid) irrespective of the time such title to income was acquired.

The cash basis is applied to any other income not indicated in the accrual basis method.

RESETTLEMENT OF THE INCOME RECEIVED BY THE NATURAL PERSON IN FOREIGN CURRENCY

If the RA legislation governing currency relations allow the individuals to receive income (including deductible) in foreign currency, such income shall be resettled in AMD, based on the average exchange rate on the foreign exchange markets, as published by the Central Bank of Armenia on the date of receipt (acknowledgement) of such income.

The average exchange rate published by the Central Bank of Armenia until 4.00 pm on that day, which is the average exchange rate published on the previous day, shall be taken as a basis for the average exchange rate on the foreign exchange markets published by the Central Bank of Armenia.

DETERMINATION OF THE INCOME RECEIVED BY THE NATURAL PERSON AS IN-KIND INCOME

If the natural person receives in-kind (non-monetary) income, the value thereof shall be determined based on the free (market) prices.

In-kind (non-monetary) income includes:

- property (except for funds),
- labor, and services,
- product of intellectual property.

The values of in-kind denominated assets are accounted in AMD, according to the following sequence:

- if the natural person receives in-kind income from a company, individual entrepreneur, notary, its value is determined:
 - ▶ at their average selling prices, including indirect taxes, charged by the company, individual entrepreneur, or notary in the settlement (payment) month from other persons,
 - ▶ where such prices are not available – the average selling prices, including indirect taxes charged by the company, individual entrepreneur, or notary from other persons in the month preceding the settlement (payment),
 - ▶ where such prices are not available – as a sum of their unit cost for the company, individual entrepreneur, or notary (original (purchase) value) and relevant indirect taxes.
- If the natural person receives in-kind income from other sources, the value shall be determined as follows:
 - ▶ based on the statistical prices relevant for the month when income was received for such or same or similar transactions (in-kind – goods, services, other assets),
 - ▶ where they are no available – based on average statistical prices published regarding the month preceding the receipt of income for such or same or similar transactions,
 - ▶ where they are no available – based on average statistical prices published regarding 12 months preceding the receipt of income for such or same or similar transactions, and in case of absence thereof – based on published average prices relevant for the sequential first month preceding those 12 months,
 - ▶ where average statistical prices are not available – the in-kind income is accounted in the gross income at the potential buying price in the year when income was received (paid).

3. INCOME TAX RATES, DEDUCTIONS FROM THE SETTLED TAX, AND COMPENSATIONS (REFUNDS) FROM THE INCOME TAX

Income tax is calculated at 5%, 10%, or 20%, depending on the type of natural person's taxable income.

Specifically:

5% RATE

5% rate is applied to natural person's following income:

→ Dividend.

Moreover, the rate of 5% is applied to the dividends received by the participant from the profits attributed to the periods after January 1, 2020 (generated from activities carried out during those periods) as profit distribution.

If the individual is a foreign citizen or a stateless person, the income tax shall be settled at the rate of 10% on the dividends received as a distribution of profits from the profits attributable to 2017-2019 (generated from activities carried out during those periods).

Dividends received by natural persons from profits attributed to the periods up to 2018 for RA citizens, and up to 2017 for foreign citizens (generated from activities carried out during those periods) are considered as deductible income, meaning they were not taxed.

10% RATE

10% rate is applied to natural person's following income:

- Royalty,
- Interest on bank deposits and debt securities offered to the public through public offer or authorized to trading on the regulated market,
- Rental fees,
- If the sum of rental payments received by an individual during the fiscal year exceeds AMD 60.0 million, the natural person shall settle additional income tax at the rate of 10% for the exceeding part,
- Income from alienation of property (except for the building, its apartments or other areas alienated by the natural person who is a developer),
- Pensions received in accordance with the RA legislation from the voluntary pension contributions made by the natural person for himself/herself or by a third party (including an employer) for the natural person within the framework of voluntary pension component,
- Income from sale of securities (shares, stock, equity shares, etc.) evidencing participation (investment) in the statutory (equity capital) building, apartment, private house or other building (including unfinished), if the sale took place during the fiscal year including the date of acquisition of such participation or during three fiscal years following it.

20% RATE

20% rate is applied to natural person's following income:

- Salary and income from provision of services or performance of work under civil law contract,
- Other interests,

- Income from the sale of a building, its apartments or other facilities by a natural person who is a developer,
- Temporary disability and maternity allowances,
- Passive income paid to the natural person by the tax agent, if for 12 months following the fiscal year of acquisition thereof such income was not paid, except for interests paid on bank deposit and debt securities offered to the public through a public offer or authorized to trading on a regulated market,
- Other income.

DEDUCTIONS FROM INCOME TAX

Amounts of income tax withheld (charged) from the natural person in foreign states, in accordance with the legislation of such states, shall be deducted from the annual income tax amount settled for the natural person who is RA resident.

Deductions from income tax can be made only in amounts not exceeding the amount of income tax settled in accordance with the procedure and the rate specified by the Code,

Deductions are made based on a reference verified by the competent authority of the foreign state.

The reference should indicate the year of payment of the tax in that country and the amount of actually paid tax.

The natural person can, for an income of up to 12,0 million AMD received or to be received outside Armenia for the 2023 reporting year and the four reporting years following it, not submit references on the amounts of income tax settled in accordance with the legislation of those countries.

COMPENSATIONS (REFUNDS) FROM THE INCOME TAX

The following shall be refunded (compensated) from the income tax paid by the natural person:

- amounts of interest paid for servicing a mortgage loan received for the purpose of purchasing an apartment or building an individual residential house, if the individual is an employee,
- the tuition fee of a full-time student in some fields of study at master's degree, PHD, and Residency programs of higher education institutions accredited in the RA, if the student is a hired employee who is RA citizen,
- The amount of income from dividends invested in the statutory or equity capital of the same RA resident company who is paying the dividends, in accordance with the legislation, in the fiscal year when such income was received, but not more than the tax paid to the State budget from such dividends.

Resident natural persons who are eligible to refund of both the interests on mortgage servicing and the tuition fee may benefit from only one of them.

The above-mentioned amounts refunded (compensated) from the income tax paid by the natural person shall no qualify as income.

The following should be considered about mortgage tax:

- After January 1, 2018, hired employee natural persons will be able to benefit from refund of the income tax in amount of the interests paid for mortgage servicing only for 1 mortgage contract.
- The contract value of the transaction to purchase an apartment or an individual residential house with a mortgage loan should not exceed AMD 55.0 million.

- Income tax in the amount of interest paid for servicing the mortgage is refunded to the employee on a quarterly basis.
- The co-borrower of a mortgage loan who is a hired employee can also benefit from income tax refund in the amount of interest paid by the individual who is a hired employee for the servicing the mortgage if he/she is the owner (co-owner) of the apartment (individual residential house).
- The total amount of income tax to be refunded to mortgage borrowers in the amount of interest paid for servicing the mortgage cannot exceed AMD 1.5 million for each quarter.
- There are certain restrictions regarding the refund (compensation) of the interest paid for servicing the mortgage, based on the location of the real estate and the date of receipt of the mortgage. Income tax is not refunded in the amount of interest paid on mortgage loans:
 - ▶ for mortgages provided after July 1, 2022, if the real estate is located or is being built or will be built in the first zone of territorial assessment (place of location) included in the administrative territory of the city of Yerevan,
 - ▶ for mortgages provided after January 1, 2023, if the real estate is located or is being built or will be built in the second zone of territorial assessment (place of location) included in the administrative territory of the city of Yerevan,
 - ▶ for mortgages provided after January 1, 2025, if the real estate is located or is being built or will be built in the zones of territorial assessment (place of location) included in the administrative territory of the city of Yerevan and not specified in the above points.
- There are no time limitations to the eligibility of natural persons who are already benefiting from the income tax refund for a mortgage.

The following should be considered about tuition:

- Tuition paid by an individual for studying can be compensated in the amount of the income tax calculated on the part of the student's salary and payments equalized thereto, if the student is a citizen of the Republic of Armenia.
- The study takes place as full-time learning in a master's degree program, PHD program and clinical residency program included in the list of higher education and clinical residency program provider institutions accredited in the RA and listed on the website of the RA Ministry of Education, Science, Culture and Sport.
- The list is defined by the RA Government's Decision No. 1035-N of 18.06.2020.
- The natural person who is a hired employee may benefit from the refund of the income tax paid to compensate tuition for only one pre-service training.
- The income tax settled for the hired employee natural person's salary and payments equalized thereto shall be refunded for compensation of the tuition in amount of the income tax settled for the natural person's salary and other payments equalized thereto in the 1st year, but not more than the tuition fee.

The academic year includes the learning months according to the university's academic plan.

- Where any other taxable income different from the salary and other equalized payments are paid for the student in any month of the academic year, the income tax settled and paid for such income shall not be refundable.

The following should be considered in regard to dividends:

- Amounts of income tax paid from dividends can be refunded if the income received as dividends are invested by the natural person in the fiscal year when they were received in the statutory (equity) capital of the same RA resident company paying out the dividend.

- The natural person who has received dividend shall receive a refund of full amount of investment made in the statutory (equity) capital but not more than the amount of the income tax paid by the same RA resident company in the fiscal year when the dividend from income received as dividend was paid by that person.
- Relations pertaining to the refund of the amounts of income tax paid from dividends are regulated by RA Government Decision No 1371-N of 28.09.2017.

To receive a tax refund the natural person should submit following documents to the tax authority:

- ▶ Application for refund of the income tax,
- ▶ Identification document (RA citizen passport/identification card), and for foreign citizens or stateless persons – the foreign citizen’s passport or the document attesting the registered right of residency in accordance with the RA legislation, and the conventional travel document,
- ▶ Reference on the dividends paid to the natural person by the resident company in the reporting year and income tax withheld from them,
- ▶ Reference issued by the competent authority about the monetary size of investment made by the individuals in the statutory (equity) capital of the same RA resident company in the reporting year,
- ▶ Document attesting to the amount of investment made in the company’s statutory (equity) capital,
- ▶ Relevant excerpt from the ledger verifying the written statement made in the unified state ledger on changes in the equity (stock) capital.

SOCIAL EXPENSES COMPENSATED (REFUNDED) FROM THE INCOME TAX

Refundable amounts not more than the maximum eligible social expended made by the natural person for himself/herself and his/her family members in the reporting year and substantiated by tax invoices or tax statements shall be deducted from the annual income tax settled for a natural person who is RA resident RA citizen.

The following qualify as social expenses in the RA:

- costs of purchasing a health insurance package from existing insurance companies,
- tuition for studies at pre-school, elementary (general, specialized, special), basic (general, specialized, special), secondary (general, specialized, special), primary vocational (craftsmanship), middle vocational, and undergraduate and graduate, and post-graduate professional and post-university professional educational programs.
- For social expenses for health – maximum 50,0 thousand AMD annually,
- For social expenses for education – maximum 100,0 thousand AMD annually.

However, the total maximum social expense of a natural person made for himself/herself, and his/her dependents is AMD 100.0 thousand annually.

The social expenses refunded from the income tax paid by the individual, as mentioned above, shall not qualify as income for the individual.

Following should be considered in regard to social expenses:

- The natural person who submitted the Tax return (Declaration) to the tax authority for the purpose of income declaration for the given reporting year has the right to use social expenses.

- For the purpose of compensation of social costs, the family members of an individual are considered to be his spouse, parents and children (adoptors and adoptees). Being a family member is justified by the following documents:
- The natural person who has submitted the tax return (Declaration) to the tax authority for the purpose of income declaration for the given reporting year shall be eligible for social expenses.
- For the purposes of compensation of social expenses, the person's spouse, parents, and children (adoptors and adoptees) shall qualify as dependents of the natural person. Being a dependent shall be supported by following documents:
 - ▶ For spouse – marriage certificate,
 - ▶ For parent – parent's identity document and the declarant's birth certificate,
 - ▶ For the child – birth certificate,
 - ▶ For adopter, adoptee – the document validating the basis for adopting or being adopted.
- Social expenses can be compensated (refunded) if such expenses are supported by the settlement documents issued in accordance with the procedure established by Article 55 of the Code.

The settlement documents, issued to support the social expenditures made by the natural person, should include the natural person's social security number (SSN) or a reference number of the certificate on not having an SSN.

For the purposes of compensation of social expenses, the settlement document, in addition to the data of the natural person or his/her dependents receiving the service, in addition to SSN should also include the personal data, including the SNN, of the natural person who has made the social expense.