

THE LAW OF THE REPUBLIC OF ARMENIA

ON VALUE ADDED TAX

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SECTION 1. VALUE ADDED TAX AND PAYERS

Article 1.

Value added tax (VAT) is an indirect tax which in compliance with this law shall be paid (levied) to the State budget for imported goods at all stages of their production and turnover, as well as for the rendering services on the territory of the Republic of Armenia (RA).

Article 2.

Individuals and organizations carrying out independent economic (business) activity in accordance with the procedure defined by the law and implementing transactions (operations) listed in article 6 of this law shall be considered VAT payers.

Economic activity implemented regularly for the purpose of deriving income (profit) shall be considered business activity. Any activity performed for compensation in any form shall be considered an economic activity.

Citizens of the RA and foreign citizens, as well as stateless persons, (hereinafter - individuals) who, in accordance with contracts concluded with employers are considered employees and at the same time do not implement transactions (operations) defined by clauses 1, 2 and 4 of article 6 of this law, shall not be considered VAT taxpayers.

Individuals who are not individual entrepreneurs shall be taxed VAT according to the procedure defined by this law and by customs legislation of the RA when importing goods into the territory of the RA, provided the quantity or the value of the imported goods exceeds the rates established by the law.

Article 3.

Legal entities and individual entrepreneurs engaged in transactions stipulated in article 6, clauses 1, 2, and 3 of this law shall be considered VAT taxpayers:

- provided they are not considered simplified taxpayers (including cases where the persons may not or have ceased to be regarded as such);
- for transactions (activities) that are not subject to tax by the simplified or presumptive tax.

Individuals, other than individual entrepreneurs who carry out economic activities, are considered VAT taxpayers in the current year provided the revenues from the transactions stated in the article 6, clauses 1 and 2 exceeds 3 million drams. These individuals calculate and pay VAT on revenues exceeding 3 million drams.

With respect to VAT taxation, the disposition of residential buildings owned by individuals is not considered a VAT taxable transaction.

In the event the activity carried out by individuals, other than individual entrepreneurs, is considered an illegal business activity as described by law, the individual's tax liabilities are calculated in accordance with the procedures stipulated in by law.

Within the meaning of this law, revenue is the overall outcome of economic (business) activities of the persons carrying out economic (business) activities without deducting incurred expenses (including expenses incurred for the purchase of goods). In trade it corresponds to the turnover.

Article 4. Invalid

SECTION 2. OBJECT OF TAXATION AND TAXABLE TURNOVER

Article 5.

The object of VAT taxation shall be the total value (turnover) of all transactions (operations) defined by article 6 of this law that are implemented by VAT taxpayers within the territory of the RA, unless otherwise provided by the law.

Article 6.

The following transactions (operations) shall be subject to VAT taxation:

1. Delivery (supply) of goods - a transaction that is implemented by transferring the ownership right of goods (including output and real estate) to other person for compensation.

Disposition of personal property of individuals, with the exception of cases defined by this law, shall not be considered as the delivery of goods.

2. Rendering of services - a transaction (operation) other than the delivery of goods, conducted for any form of compensation, including the sales (transfer) of intangible assets. The lease of goods and real estate shall be also considered the rendering of services.

3. Free or partially free consumption - free delivery of goods or the provision of services performed by VAT payers pursuant to the procedure defined by this law to specified or other persons, or delivery of goods and provision of services at significantly lower prices than charged for such transactions (operations), with the exception of cases provided by the law or in cases specified by law or other decrees.

4. Importing goods by "Importing for Free Turnover" customs regime, with the exception of cases specified by law.

For goods imported into the territory of the RA the VAT is calculated and collected on the border by customs officials, with the exception of:

a. goods included in the list defined by law for which the customs duty for import is defined as 0 percent and which are not subject to excise tax

b. Invalid

Article 7.

The following shall not be subject to VAT taxation (shall not be included in the object of taxation):

1. State duty amount;
2. gratuitous provision of goods and services by taxpayers, as well as the difference between the taxable turnover defined by this law and the compensation received in cases of transactions with partial compensation as based on the RA Government decrees;
3. services rendered gratuitously by a seller of goods within the warranty period defined by public contracts, as well as goods within the confines of these services not meeting quality requirements, gratuitous replacement of goods' spare parts, rendering of services and supply of goods the value of which is included in the cost of goods supplied and serviced rendered according to public contracts;
4. transactions for the change of ownership right (including transactions on privatization) in regard to the legal entity, enterprise without the status of a legal entity, as well as transactions on denationalization;
5. transactions for the reorganization of a legal entity or enterprise without the status of a legal entity;
6. lease transactions of a leasehold enterprises created on the basis of State enterprises;
7. Invalid
8. Invalid
9. turnover of values and treasures without owner passed to the State as devised, as well as subsidies, subventions and grants from the State budget related to the introduction of rates set, as prescribed, by the State or the authorized agency;
10. disposition of property or property rights to the State in form of confiscation or donation;
11. revenues from the delivery of goods and rendering of services by budgetary institutions which are completely credited to the State or municipal budgets;
12. import of goods by individuals for their personal consumption specified by the law;
13. import of personal property by citizens entering the RA for permanent residence;
14. Invalid

Article 8.

The turnover subject to VAT taxation shall be determined pursuant to the following procedure:

1. The VAT taxable turnover for the delivery of goods and services shall be the value thereof stated in monetary amounts (including other payments included in this value pursuant to the law), excluding the amount of VAT that must be paid by the purchaser to the supplier.

The value of multiple use returnable containers shall not be included in the turnover subject to VAT, with the exception of cases when the container is sold directly by the producer or the importer.

2. For goods imported to the RA, the amount of their customs value determined in accordance with the procedure established by the law and the customs duty and excise tax levied shall be considered as the turnover subject to VAT at the moment of import.
3. The turnover subject to VAT while importing goods which, pursuant to the procedure defined by the customs legislation had been earlier exported from the territory of the RA by VAT payers for the purpose of processing or repair, shall be the value of processing and repair which must be paid as an indemnity to

foreign legal entities, enterprises without the status of a legal entity, or to foreign citizens and stateless persons (hereinafter - foreign individuals); and in case of impossibility to define the value in question - the difference between the customs value of the import of goods after processing and repair and the customs value declared while exporting thereof.

4. When conducting VAT taxable entrepreneurial activities in the RA by foreign entities (including import of goods belonging to the mentioned entities) that are not registered as entities conducting entrepreneurial activities in the RA, entities of the RA (citizens, individual entrepreneurs, legal entities, local government entities and state entities) that are parties of contract relations (including contractors) shall bear the tax responsibility instead of the foreign entities in terms of the mentioned activities conducted by order and within defined deadlines. In terms of these activities VAT taxable turnover shall be determined by order defined by this article.

5. For goods and services provided on the basis of assignment, commission or agency, the taxable turnover is considered to be the mediator fee (charge, bonus or other type of compensation) without VAT, unless otherwise specified by law or other legislative acts.

6. The gratuitous supply of goods, gratuitous rendering of services, as well cases when for given activities (transactions) prices lower than actual value in comparison to usual prices are applied (partial compensation), the taxable object shall be considered to be the value (cost of transaction, payment, compensation, prize or the value of other money payment) determined according to this law and considered as taxable turnover under circumstances comparable for similar transactions. If such a value is missing the taxable object shall be considered to be the amount (the actual value of transaction) usually considered as a taxable object for similar transactions in business spheres under comparable circumstances.

7. The taxable turnover for barter transactions (operations) shall be determined according to the procedure established by this law for the delivery of goods and provision of services on the basis of their price exclusive of VAT applied at the moment of the delivery of these goods and services.

8. In case of delivery of goods subject to the excise tax, the amount of the excise tax shall also be included in the VAT taxable turnover.

SECTION 3. TAX RATES

Article 9. The rate of VAT shall be determined in the amount of 20 percent of taxable turnover of goods and services.

The amount of VAT within the amount of the total indemnity for the goods and services (including 20 percent rate) shall be determined at the rate of 16.67percent.

Article 10.

The zero rate of VAT shall be applied to the taxable turnover of goods and services defined in article 16 of this law.

Article 11.

VAT may be replaced by fixed payments (presumptive tax) defined by the law for certain VAT payers, groups of taxpayers, or certain types of transactions and operations.

SECTION 4. PLACE OF SUPPLY OF GOODS AND PROVISION OF SERVICES

Article 12.

The place where goods are located and where they are to be delivered from shall be considered as the place of supply. The goods in the RA shall be considered supplied, if:

- a) they were unloaded and delivered to the purchaser (customer) on the RA territory;
- b) they were exported from the RA.

The imported goods shall be considered as delivered in the RA from the moment of the import.

Article 13. Services shall be considered as rendered in the RA if they were rendered within the territory of the RA.

The place of rendering of services shall be the place where the service provider implements business activity, and in case of the absence of such place or impossibility of determining it the place of location (domicile or place of residence, with the exception of the cases defined in article 14 of this law) of the mentioned person will be used.

Article 14.

The place of rendering of services related to the real estate, including services rendered by the agents and experts on rent, brokerage, preparation and implementation of construction (including design, exploration, supervision and other related services) shall be the place where the real property is located or is planned to be constructed.

The place of provision of transport services shall be the place where the transportation of loads, post, passengers and baggage originates. The place of provision of services on the transportation of loads, post, passengers and baggage by the routes starting and not interrupting on the territory of the RA, supported by single international documentation (hereinafter - international transportation), shall be outside the territory of the RA.

The place of provision of services in the field of culture, art, sport, science, education and public health (including services necessary for their organization), supporting transport services (loading and unloading of goods, handling, storage of loads and other services), services on assessment, repair, placement of movable property and other similar services shall be considered the place where these services are actually rendered. Services for the transfer of possession rights of patents, licenses, copyrights, trade marks and other similar rights, advertising, consulting, engineering, legal, accounting, expert, translating, and other similar services, as well as services for data processing, the provision of software and information, banking, financial and insurance services (with the exception of the lease of safes), lease of movable property (with the exception of the lease of any means of transport) rendered by persons registered in the RA to foreign legal entities, persons without the status of a legal entity, or individuals (or such services provided by foreign entities or individuals to RA entities or individuals), the place of provision of services shall be the place where the person who receives the service implements business activity or has a permanent office where the mentioned services are rendered, or in case of the absence thereof - the domicile or the place of residence of the person.

The place of provision of services for leasing means of transport, shall be the place where the lessor implements business activity, or in case of the absence of such place - the domicile or the place of residence of the lessor.

For postal and electronic mail services rendered from the territory of the RA to the territory of a foreign country the place of provision of services shall be the territory of the foreign country in question. For postal and electronic mail services rendered from the territory of a foreign country to the territory of the RA the place of provision of services shall be the territory of the RA.

SECTION 5. PRIVILEGES AND ZERO RATE TAXATION

Article 15.

The exemption from VAT occurs when VAT is not calculated on taxable turnover. The following transactions and operations mentioned in clauses 1, 2 and 3 of article 6 of this law shall be exempt from VAT:

1. Invalid;
2. the part of the fee for education at secondary schools, vocational schools for qualification and re-qualification, specialized- secondary and higher educational institutions;
3. sales of copy-books and music books, albums for drawing, children's and school literature, school educational publications; sales of scientific and educational editions published by higher educational institutions, specialized scientific organizations and the National Academy of Sciences of the RA;
4. scientific and research works;
5. Invalid;
6. sales of veterinary medicines , sales of poisonous chemicals used in agricultural production, fertilizers, agricultural plants and seeds of perennial plantations and planting material used by producers of agricultural production;
7. sales of agricultural products produced in the RA by the producer ;
8. services related to the care of children in preschool institutions, care for persons in boarding-schools, children's homes, institutions caring for disabled children and invalids, in nursing homes, as well as sales of goods produced and services rendered by the persons living at the expense of these institutions;
9. Invalid;
10. sales of newspapers and magazines;
11. provision of services by undertaker's offices, cemeteries, as well as other ritual services and sales of respective accessories related to death and burial;
12. religious ceremonies, sales of religious items to the religious organizations, as well as sales of these items by the religious organizations;
13. Invalid;
14. Invalid;
15. insurance and reinsurance operations, including services related to them, which are rendered by insurance mediators and agents;
16. operations related to pension insurance, including services related to them, which are rendered by

mediators and agents;

17. the following financial operations and transactions carried out by banks and lending organizations (except the cases provisioned by this clause):

- receipt of demand deposits, time deposits, savings and other similar investments, opening, keeping and serving of banking and investment accounts, including provision of settling services;
- provision of credits (loans), including the covering of liabilities and the financing of commercial transactions, and other factoring operations;
- provision of guarantees, bank guarantees, opening of letters of credit;
- sale, safe keeping and recording of securities by banks, lending organizations, and other persons;
- issue, discount, transfer, concession or service of promissory notes, checks, orders, other payment securities, payment documents, cards and other instruments as well as sale of promissory notes, checks, payment orders, other payments securities, and payment instruments by other persons;
- purchase, sale and exchange of foreign currency (banknotes or metal money, with the exception of coins and bank tickets having numismatic meaning and used for this purpose), futures, options in Armenian drams and foreign currency, and performance of other similar transactions;
- cash withdrawal services;
- provision of services of a financial agent (representative) by bank;
- entrusted management of securities;
- sale of the standard (of bank) precious metals bullion, opening and keeping of such accounts, implementation of other operations with them as well as sale of bank bullion to banks and lending organizations;
- Invalid;
- brokerage and other intermediary services;
- Invalid;
- sales of collateral previously belonging to individuals not considered individual entrepreneurs that has become the property of the bank according to procedures specified by law;
- services on acceptance of money (revenue, obligatory, housing and other payments), as well as on the provision of payments on wages, pensions, benefits, insurance payments, etc. according to concluded contracts.

The registration and issuance of certificates and references related to the services provided by this clause, production of securities, checks, orders, payment documents, cards, banknotes and metal money, bank gold, facsimile services shall not be exempt from VAT.

18. Invalid;

19. sales of donor blood, breast milk, prosthetic and orthopedic items, medical assistance services (including prophylactic diagnostic measures), goods related to the treatment and prepared within the context of medical assistance and by patients in prophylactic enterprises and organizations, and services rendered by them;

20. Invalid;

21. delivery of goods and provision of services according to the procedure established by the Government of

the RA for the preparation facilities of credit and grant programs of international financial organizations;

22. free consumption provided by public (including benevolent) and religious organizations (deleted expression);

23. Invalid;

24. Invalid;

25. Invalid;

26. sales of precious and semiprecious stones indicated in the list specified by the Government of the RA;

27. sales of half-finished jewelry articles of precious metals (EEACC 7106, 7108, 7109, 7110, 7113, 7115);
and

28. supply of goods and services within humanitarian assistance and charitable projects (activities) by foreign states, international intergovernmental (interstate) organizations, international, foreign, and the Armenian NGOs (including charities), religious and similar organizations, and individual donors as well as provision of goods and services directly related and essential to the implementation of such projects by the RA VAT taxpayers.

In the event that a project (activity) is not explicitly stipulated in the RA laws (including RA international contracts), the State governing body authorized by the Government of Armenia shall determine its humanitarian and charity attributes and determine in accordance with the provisions of this article the scope of VAT-exempt goods and services.

Article 16.

Zero rated taxation by VAT is the application of zero rated VAT on the sales turnover of activities specified in this article (hereinafter, taxable turnover).

The zero rate of VAT shall be applied:

1. To the taxable turnover of goods exported by "Export for free turnover" Customs regime outside the customs border of the RA, as well as to fuel for airplanes of international flights and supply of the goods for consumption during the flight for the staff and passengers of airplanes.

When exporting goods purchased in the RA by foreign persons the amounts of VAT paid for the goods in question on the territory of the RA shall be refunded to them (deleted expression) according to the procedure established by the RA Government.

2. To the retail sale of goods for passengers of international routes in airports, in places specially allocated for that purpose beyond customs and passport control territories, provided that the goods have passed customs registration prior to being on sale pursuant to the procedure established by the customs legislation for the export of goods from the territory of the RA;

3. Invalid;

4. Invalid;

5. To the taxable turnover of services (deleted words), maintenance (including navigation, take-off and landing services), repair and re-equipment (deleted words) of the means of transport for international transportation, as well as services rendered for passengers, baggage, cargo and post on international flights and services rendered to passengers during the flight;

6. To the taxable turnover of services (including those provided by agencies and intermediary services) directly related to the provision of services defined in clause 5 of this article;
7. To the taxable turnover of services on processing and assembly of products from raw materials, semi-manufactured goods, and materials of foreign legal entities, enterprises without the status of a legal entity, or individuals according to their orders, services on the repair and modernization of movable property on the territory of the RA and other similar services exported outside the customs border of the RA in conformity and within the terms established by the customs legislation of the RA;
8. To the taxable turnover of services whose place of provision is outside the domestic territory of the RA in accordance with this law;
9. Invalid;
10. Invalid;
11. To the goods imported or purchased on the territory of the RA for the official use of diplomatic representations and consular institutions, as well as international intergovernmental (interstate) organizations deemed equal thereto, and services rendered to them;
12. To the transit transportation of foreign loads through the territory of the RA.

When implementing transactions (operations) taxable at zero rate the amounts of VAT for the purchased goods and rendered services indicated in the tax accounts submitted by the suppliers shall be subject to refund (set-off) according to the general procedure established by this law.

Article 17. Other laws may establish VAT exemption privileges and other types of privileges as provided by RA tax legislation.

SECTION 6. PROCEDURE OF CALCULATION AND PAYMENT OF VAT

Chapter 1. Procedure of Filing in Calculation Documents

Article 18.

In accordance with this law VAT payers must provide tax calculation document (tax invoice) for the delivery of goods and rendering of services subject to VAT. A calculation document certifying the delivery of goods and provision of services, and filed in accordance with article 20 of this law in the required form shall be considered a tax invoice.

Article 19.

Tax accounts shall not be filed:

1. by persons who are not VAT payers;
2. for goods and services exempt from VAT by the law;
3. for transactions (operations) not subject to taxation or subject to zero-rate taxation pursuant to this law.

In the above-mentioned cases other calculation (including the documents related to the goods) and payment documents shall be completed according to general procedures.

Article 20.

The following data and requisites must be indicated in the tax account:

- a) serial number and the date of issue;

- b) name and address of the legal entity; name, surname and the place of residence of the individual who provides goods and renders services; the taxpayer's identification number (TIN); and the VAT payer identification number in case such a procedure is specified by the RA government;
- c) name and address of the legal entity; name, surname and the place of residence of the individual who receives goods and services;
- d) denomination and quantity of goods, or the type and volume of services;
- e) the price and the total value of goods or the tariff and the total amount of payments for services exclusive of VAT;
- f) the calculated amount of VAT (as a separate line);
- g) other information and details provided in requirements set by RA Government for the documents supporting expenditures;

Under this law, after the reporting period and up to the 25th of the following month, persons considered to be the VAT taxpayers shall submit to their domicile tax agency, as the procedure set by the RA Ministry of State Revenues prescribes, information on tax invoices issued within the reporting period by suppliers in respect of purchased or received goods or services and those issued (for customers) by them for supplied goods and services. The VAT payer shall include in this information data only those tax invoices where the amount of taxable turnover is in excess of the amount set by the RA Government.

The sanctions provided by the law for failure to issue a settlement form shall be imposed on the VAT taxpayers who fail to issue a tax invoice at the buyer's request.

When incurring tax liabilities in cases provided by the clause 4, article 8 of this law, the persons engaged in business activity taxpayers may issue tax invoices as prescribed by the law on behalf of a foreign resident not registered in the RA and indicate in the invoices their identification numbers for registration as a person supplying goods or services - a taxpayer and the VAT taxpayer (provided such a provision is determined by the RA Government). The tax invoices issued following this procedure are considered issued by a supplier.

Article 21.

The calculation and imposition of VAT by customs bodies for the import of goods into the RA shall be carried out on the basis of customs declarations and payment documents (payment order, receipt, or other documents attesting the payment) filled in during registration at the customs office.

Article 22.

Pursuant to this law, VAT payers must keep accounting in chronological order and keep all copies of tax accounts given by them, accounts attesting the payments of VAT for the receipt of goods and services, declarations attesting the payment of VAT to the customs bodies when importing goods, as well as other documents related to the calculation and payment of VAT for at least three years from the date of completing the listed documents.

Chapter 2. Procedure on VAT Calculation

Article 23.

According to this law, VAT payers shall pay to the budget within the reporting period the amount of VAT

calculated on the taxable turnover of taxable transactions (operations) implemented in this period with a deduction (set-off) for:

1. The VAT amounts indicated in tax invoices issued by the suppliers of the goods and services purchased or received for production or other commercial purposes in the reporting period within the RA (except the cases provisioned by this law) that were remitted through banks, except in cases stated in this article.

The amounts for transactions carried out within the RA for production and other commercial purposes that are not remitted through banks shall be offset, provided the amount of a transaction related to the supply of goods and services (without VAT) does not exceed:

- 500,000 drams for one-invoice transaction in 2003 and 5 million drams for all such transactions within the reporting month;

- 300,000 drams for one-invoice transaction in 2004 and 3 million drams for all such transactions within the reporting month;

- 100,000 drams for one-invoice transaction for 2005 and 1 million drams for all such transactions within the reporting month.

The VAT amounts for the supplied goods and services indicated in late tax invoices and subject to offset shall be credited in the reporting period when the tax invoice was received.

The VAT amounts indicated in the tax invoices for purchased and received goods and services shall be offset in the reporting period when payment was made.

2. The amounts of VAT withheld (or subject to withholding) by customs bodies of the RA - for goods imported into the territory of the RA - pursuant to the procedure and rates established by the law, in case when the withholding of VAT at the moment of the import of goods is provided by this law.

3. According to article 3 of the law entities that have become VAT payers and have registered at tax inspectorates shall credit VAT amounts (collected by Customs entities) specified in tax invoices of suppliers in terms of goods procured (imported) and services provided after the moment they have become VAT payers according to article 3 of this law.

4. For the loss of goods (including natural losses) procured for production or other commercial purposes by VAT payers with volume not exceeding that defined by the Government of the RA, the VAT amounts paid (specified in tax invoices and Customs documents) to suppliers (in cases defined by law – on customs border) are not subject to crediting or return, provided the losses are not considered as a reduction from gross revenues for profit taxation purpose.

Article 24. Invalid

Article 24.1.

Prior to 1 January 2006 the provision of goods and services to the public for water, irrigation, and sewage as well as provision of good and services under the law on Procurement, VAT responsibility arises at the time of payment for provided goods and services.

In order to apply the present article, during the reporting period the VAT amount calculated against the taxable turnover of taxable operations and the VAT amount received from beneficiaries (customers) shall be paid, with deductions for amounts during the same reporting period that:

1. Were paid through the bank to the suppliers against domestically purchased goods (including capital goods), non-material assets, and services for production or other commercial activity, to the extent of VAT amounts on tax invoices as specified in chapter 1 of section 4 of this law.
2. Were paid to Customs offices of RA against goods imported to the country in accordance with procedures and amounts specified by law.

Article 25.

The difference (excess) in creditable VAT amounts calculated from taxable turnover in accordance with the procedure stated in the articles 23 and 24№, except those determined by the procedure stipulated in the clause 2 of this article for the transactions stated in this clause, are to be offset against the VAT amounts subject to payment as prescribed by this law for the supply of goods and services within the RA in the coming reporting periods.

The VAT amounts indicated in the suppliers' tax invoices for purchases directly related to the transactions taxable by a zero-rate VAT (except the export of ferrous and non-ferrous scrap) and customs declarations for imported goods shall be offset against the taxpayer's other tax liabilities or, if not any, refunded to the taxpayers provided that the VAT amount to be offset is in excess of the VAT amounts calculated from taxable turnover of transactions carried out by the taxpayer (there is a VAT debit balance). The portion of the VAT debit balance to be offset against the taxpayer's other tax liabilities or refunded is that corresponding to the share of supplies taxable by a zero-rate VAT in the total revenue from transactions but not exceeding the total VAT on purchases directly attributed to the transactions taxable by a zero-rate VAT.

The VAT is refunded from the VAT revenues of the State budget in compliance with this clause within three months after a taxpayer files the application for a refund based on the reference supporting the VAT refund and provided as prescribed by the RA Government.

In the cases provided by the article 40 of this law the difference (excess) in the VAT creditable from the VAT amounts calculated for taxable turnover may not be refunded, except for amounts directly attributed to the transactions taxable by a zero-rate VAT. The difference (excess) between VAT creditable and VAT amounts calculated for taxable turnover shall be written off on against profit (income).

The right of the taxpayer to offset the tax amounts calculated for taxable turnover or receive a refund from the State budget may not be assigned to other persons, except in cases pertaining to the reorganization of the legal entities through accession, merger, and change in entity status, as well as the death of an individual, when this power is transferred to the successor.

Article 26.

In cases described in article 23 of this law the amounts of VAT indicated in tax accounts of suppliers (in case of import - in customs declarations) shall not be set off (deducted):

1. By entities who are not VAT payers;
2. For transactions (operations) that are not subject to taxation pursuant to article 7 and are exempt from VAT in accordance with article 15 of this law, as well as for transactions which are not controlled by this law. The amounts of VAT indicated in tax accounts (in case of import - in customs declarations) of suppliers in cases

defined in this clause shall be added to the purchase price of the goods or to the cost of production and turnover except for the cases specified in clause 3 of article 7 of this law.

Except for the case of export of goods, the regulations defined by this clause shall apply also to the purchasers of multiple use returnable containers purchased directly from the producer or directly from the importer - in the part of the containers in question, as well as to the entities making fixed payments substituting for VAT pursuant to the procedure established by the law.

As mentioned in this section, VAT amounts directly related to operations during the current reporting period deducted in the previous reporting period are subject to recalculation and must be added to the price of acquisition of goods and services or to the production and sales cost. The provisions of this paragraph apply for procurements made after December 31, 2001.

3. For goods and services purchased and/or used for non-production (non-commercial) purposes, with the exception of the cases of free (or with partial compensation) provision of goods and services;
4. the negative difference between the accrued VAT liabilities from VAT taxable operations and VAT credits accrued on tax invoices (customs declarations) of providers of goods and services in respect of the said VAT taxable operations of purchase (import).
5. The VAT amounts indicated in the tax invoices (customs declarations for import of goods) for purchased (imported) cars that are not for resale. These amounts shall be recalculated and credited as the general procedure of this law requires at the VAT amount calculated based on the residual value of these cars at the moment of their further sale.

Article 27.

When persons who are VAT payers pursuant to this law implement transactions (operations) that are taxable and exempt from VAT (as well as not subject to taxation) at the same time, they may set off (deducted from the amount of VAT subject to payment to the State budget) only the amounts of VAT related to the goods and services purchased for the implementation of taxable transactions (operations), (including the amounts charged by customs bodies). For this purpose the VAT payers must keep separate accounts for operations taxable and exempt from VAT (as well as not subject to taxation), as well as for the services and goods purchased for performing them. In case when it is impossible to keep separate accounts, the amount of VAT subject to set-off (reduction) within each reporting period shall be calculated on the basis of the share of turnover (VAT exclusive) of taxable transactions (operations, including those taxed at zero rate) in the total turnover (VAT exclusive) of all transactions (operations) implemented in the same reporting period.

In terms of transactions mentioned in clause 3 of article 7 of this law, no taxable turnover shall arise and no recalculation of VAT amounts specified in tax invoices of suppliers of goods and subject to crediting shall be conducted.

Article 28.

When individuals, payers of VAT pursuant to this law implement business activity at the place of their residence where they also acquire goods and services for personal purposes and have paid (registered) VAT for the acquired goods and services, only the amounts of VAT paid (registered) for the goods and services

acquired directly for the purposes of the implementation of business activity shall be subject to offset (reduction).

Article 29.

In case of violation of the requirements of article 19 and issuing tax invoices, the entities shall be obliged to pay VAT amounts specified in tax invoices to budget according to the general order defined.

Chapter 3. Procedure and Terms of Paying VAT and Submitting Calculations

Article 30.

For goods imported into the RA, VAT shall be paid within 10 days after the importation in accordance with the procedure established by the Government of the RA. In cases when the previously declared customs regime (according to which VAT is not levied on the goods passing the customs border) is replaced by the regime of issue (import) for free circulation, the taxpayers (or other persons responsible for the payments established by the customs legislation) shall be obligated to pay the amounts of VAT not imposed in the customs regime of import within 10 days after the re-declaration of goods or from the day when it became known.

Article 31.

When VAT payers implement taxable transactions (operations), the moment of the delivery of goods and services, free (or with partial compensation) consumption, as well as related tax liability (calculation of VAT), shall be the moment when one of the following cases occurs:

1. the goods are unloaded or delivered to the purchasers, or the services are rendered to the customers;
2. for VAT payers in accordance with the procedure indicated in article 24 of this law - the payment (taking into account the amount of the payment) is received from the purchasers (customers) for the delivery of goods and provision of services;
3. the day of implementation of taxable transactions (operations) on free (or with partial compensation) consumption (including for the VAT payers, in accordance with article 24 of this law).

Article 32.

Payments of the amounts of VAT calculated in accordance with articles 23 and 24 of this law shall be made to the State budget for each reporting period.

For the purposes of this law, each quarter (with the exception of the case defined by the third part of this article) shall be considered a VAT reporting period.

For those persons whose revenues from operations defined in sections 1, 2, and 3 of article 6 exceeded 60 million drams in the previous calendar year, the VAT reporting period shall be each month.

The calculated VAT amounts shall be paid into the State budget up to the 20th day (inclusive) of the month following the reporting period.

Article 33.

VAT payers shall submit to the local tax Inspectorate body the respective calculations of the payments of VAT into the State budget in accordance with the form developed by the Tax Inspectorate of the RA and within the terms set by article 32 of this law.

In case of identifying errors in terms of VAT by VAT payers themselves, adjustment forms may be filed with corrected data by order defined except for the case defined in article 29 of the law.

SECTION 7. PECULIARITIES OF VAT CALCULATIONS

Article 34.

Taxable turnover for persons providing services in the field of tourism (hereinafter - agencies), who sell travel tickets (or render services) to citizens on behalf of other persons, shall be the difference between the whole amount paid by the clients to the agency and the value of services rendered by other persons (particularly - the amount paid for the registration of documents and for the purposes of other similar expenses).

When the delivery of goods and the provision of services related to tourism is implemented completely outside the territory of the RA, the zero tax rate shall be applied to the services provided by the agencies in accordance with article 16 of this law, and in case when the services are rendered both within the territory of the RA and outside it only the part of services related to the transactions (operations) implemented outside the RA shall be subject to taxation.

Article 35.

For commission sales of personal property of citizens and stateless persons in accordance with the established procedure, the taxable turnover for persons implementing commercial activity shall be the amount of a commission payment (commission fee), provided that the accounting of the mentioned property is carried out separately from the accounting of new (non-commission) goods, with observance of the rules of commission trade.

Article 36.

For the auction sale of goods, the taxable turnover for the organizer of the auction shall be the amount of intermediary payment (bonus, interest, etc.) paid by the owner (or other person) of the goods on sale, unless provided otherwise by this law.

Article 37.

Taxable turnover for the provision of communication services within the territory of the RA shall be the price based on the established tariffs.

The amounts paid to the persons rendering communication services in the RA by the member countries of the International Electronic Net (IEN) according to the results of mutual settlements in the line of international communication services between the RA and other member countries of the IEN, as well as the amounts paid to persons rendering postal services in the RA by the World Postal Union (WPU) according to the results of mutual settlements in the line of postal services between the RA and other WPU member countries, shall be considered as a compensation for the services exported and the zero rate of VAT shall be applied to them.

Article 38.

With the exception of cases indicated in clause 8 of article 7 of this law, the following shall be considered as taxable turnover for collateral operations:

1. For sales of a pledged property currently in circulation (including the pledge of real estate (mortgage) - the taxable turnover determined in accordance with the procedure established by clause 1 of article 8 of this law;
2. For sales of pledged property withdrawn from circulation - the difference between the prices of the claims at full value received at the moment of their actual satisfaction, including interest, compensation for the

damage caused in consequence of a delay in fulfilling the contractual liability, penalty, fine, expenses on safe keeping of the pledged property and fulfilling the claim provided with the pledge.

In cases specified in this article the calculation and payment of VAT shall be made on the pledger.

Article 39. Invalid

Article 39N.

With regard to the privilege provided for in the article 15, clause 28 of this law, those implementing humanitarian aid and charitable projects shall state this in the contracts made with the suppliers located in the RA.

Following the procedure determined by the RA Government, the State governing body authorized by the RA Government may change or suspend the qualification of the project (activity) as humanitarian aid or charity in case of failure to use revenues from the supplied goods or received (without VAT) goods and services for objectives of the Charter (plan), and terminate or invalidate this privilege thereupon.

In the event the State governing body authorized by the RA Government changes or repeals the preliminary qualification of the project as humanitarian aid or charity the liability to pay the VAT amount not paid previously as well as penalty for late payment shall be incurred by:

- a) the organization implementing the project qualification of which to humanitarian aid or charity is invalidated (changed) provided the beneficiaries of the project were individuals or organizations that should have received, as intended, goods and services within this project, while it is no longer qualified as such because these goods and services have not been actually received;
- b) each beneficiary of the project qualification of which to humanitarian aid or charity is invalidated (changed) provided it is an organization and having used goods and services received within the project, it should have provided services, as intended, while the project is no longer qualified as such due to the failure to provide actually this services.

In the event that the State governing body authorized by the Government of Armenia changes or invalidates the preliminary attribution of the project to charity or humanitarian aid, the time stipulated in the first part, article 30N^o of the law on Taxes as applied to the VAT liabilities shall commence from the end of the period determined for the project.

Article 40.

During liquidation of commercial organizations the sale of property objects and other property rights, including distribution (sale) among shareholders, founders and stakeholders after paying liabilities to the State and third parties shall be VAT-taxable by general order.

If activities of individual entrepreneurs are terminated an additional tax liability is incurred in respect of residual inventory (including goods, products, objects of mental property) equal to VAT amounts credited before termination of activities and paid (indicated in tax invoices and customs documents) for purchases of other property rights.

Article 40N.

The VAT taxable turnover in respect of the VAT taxable transactions carried out by an entrusted administrator under the entrusted management of property is the total turnover determined in compliance with this law for

such transactions. The entrusted administrator of property is liable to calculate and pay the VAT on these transactions on his/her and the management founders' behalf.

The amount payable to the State budget in respect of the transactions carried out under the entrusted management is the difference between the VAT amount calculated for taxable turnover of such transactions and the VAT amounts subject to offset pursuant to this law indicated in the suppliers' tax invoices for goods purchased (imported) and services received for the purpose of carrying out such transactions and included in the property transferred to an entrusted management.

SECTION 8. RESPONSIBILITY FOR VIOLATION OF THIS LAW

Article 41.

VAT payers and their officials shall bear responsibility for the violation of this law in accordance with the procedure established by the law.

Article 42.

For violations of the procedure on filling in tax accounts defined by article 20 of this law a penalty amounting to 10 percent of VAT calculated in the documents in question shall be imposed on the taxpayers.

Article 43.

In cases where the turnover subject to VAT is concealed or reduced, as well as when the amounts of VAT subject to pay into the budget are concealed or reduced because of making reductions (set-off) of VAT amounts paid for the goods and services with violation of the procedure provided by this law, the VAT payer is liable for the concealed or reduced amount of VAT and a penalty equal to 50 percent of that amount. This penalty shall be applied also for failure to cover liabilities of tax defined in clause 4 of article 8 and in cases when the inspection carried out by the Tax Inspectorate bodies reveals that the amount of VAT subject to payment to the budget is not due to the fact that the amounts of VAT subject to set-off (reduction) exceed the calculated amounts of VAT.

Article 43.1.

If VAT amounts for supplies and purchases that are provided and goods and services that are received are not included (reported) in the information submitted to tax entities according to the procedure stated in article 20 of this law, the person who submitted information shall be charged penalty at 5,000 drams per piece of false information (tax invoice).

The VAT amounts indicated in tax invoices issued by suppliers in respect of purchased and received goods and services subject to inclusion in the information to be provided to tax offices as required by article 20 of this law that were not reported in submitted information or information on which was not provided are not subject to crediting.

Article 44. Invalid

Article 44.1

. In cases where tax invoices are issued without transactions for the provision of goods and services, the persons are charged the VAT amounts included in the tax invoices as well as penalty equal to 100 percent of

the VAT amount, but not less than 1 million drams. This penalty does not apply if the person remains responsible for completing the transaction based on the goods or service agreement.

The VAT amounts not subject to offset are: those indicated in the tax invoices issued for transactions that are nullified or invalidated according to law, VAT-exempt transactions or transactions that are not considered an object of VAT, transactions related to activities taxable by presumptive payment or simplified tax; and VAT amounts indicated in the tax invoices without supply of goods and services as well as issued by persons included in lists promulgated by the tax body in compliance with the RA law on Taxes that are not the basis for the tax calculation or offset. The offset of the VAT amounts indicated in these tax invoices shall be adjusted, with the VAT amounts indicated in the tax invoices for the activities taxable by presumptive and simplified tax adjusted (deducted from the VAT subject to offset) in the reporting period when an illegal offset was detected or recorded. The VAT amounts indicated in the tax invoices issued without supply of goods and services as well as in those issued for transactions exempt from VAT or not considered the taxable object, and nullified or invalidated as prescribed by the law shall be adjusted based on the results of the reporting period when these transactions were carried out (offset was made).

Failure to record (failure to deduct) by the procedure stated in this article the VAT amounts is regarded as an offset (deduction) of the VAT amounts paid for goods and services by a violation of the procedure prescribed in the law.

Article 45.

In cases when persons implementing independent business activity were obligated but failed to pay VAT while implementing taxable transactions (operations), pursuant to the provisions of article 3 of this law, they shall bear the responsibility established by the law.

Article 45.1. Invalid

SECTION 9. TRANSITIONAL AND CONCLUDING PROVISIONS

Article 46.

Instructions relating to the provisions of this law, as well as the explanations to them, shall be approved by the Tax Inspectorate of the RA in coordination with the Ministry of Finance of the RA, as well as:

- the explanations to the provisions of clauses 3 and 4 of article 15 of this law - with the Ministry of Education and Science of the RA;
- the explanations to the provisions of clauses 5-7 of article 15 of this law - with the Ministry of Agriculture of the RA, and with the Department of Standardization, Metrology and Certification of the RA;
- the explanations to the provisions of clause 8 of article 15 of this law - with the Ministry of Social Security of the RA;
- the explanations to the provisions of clause 13 of article 15 of this law - with the Ministry of Communication of the RA;
- the explanations to the provisions of clause 18 of article 15, and clause 10 of article 16 (on construction and related works) of this law - with the Ministry of Urban Development of the RA, and with the Department of Statistics, State Register and Analysis of the RA;
- the explanations to the provisions of clause 19 of article 15 of this law - with the Ministry of Health of the RA.

The respective instruction on VAT imposed by the customs bodies of the RA while importing goods into the territory of the RA, in the part of the provisions concerning the calculation and payment of the tax, as well as explanations to them, shall be approved by the Customs Department of the RA in coordination with the Ministry of Finance of the RA, and the Tax Inspectorate of the RA.

Article 47.

In cases when norms different from those provided by this law are established by agreements concluded on behalf of the RA, or by ratified international agreements, the norms of international agreements shall be applied.

Article 48. This law shall become effective on July 1, 1997.

The law of the RA "On VAT", dated June 30, 1993 shall be declared void from the moment of the entry of this law into force.

President of the Republic of Armenia

Levon Ter-Petrosyan

16 June 1997

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- 08.09.1997
- 30.09.1997
- 21.10.1997
- 04.11.1997
- 26.12.1997
- 06.07.1998
- 28.12.1998
- 13.12.2000
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- 20.05.2002
- 25.09.2002
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- 16.12.2005
- 16.12.2005
- 22.03.2006
- 23.05.2006
- 13.06.2006
- 27.11.2006
- 25.12.2006
- 09.04.2007
- 09.04.2007
- 11.10.2007
- 26.05.2008
- 21.08.2008
- 27.11.2008
- 26.12.2008