

GLOBAL TAX SERIES



European Tax Handbook 2022

European Tax Handbook 2022

Why this book?

The 2022 European Tax Handbook includes surveys on 49 countries and jurisdictions. The surveys have been updated to reflect the laws applicable in 2022. A chapter on the European Union (together with the most important tax directives) and descriptions of seven of the most important Swiss cantons are included.

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Preface

IBFD is pleased to present the *thirty-third* edition of the *European Tax Handbook*.

The 2022 *European Tax Handbook* covers surveys on 49 countries and jurisdictions. All information on the European tax systems has been updated to reflect, as much as possible, the laws applicable in 2022.

As before, the *European Tax Handbook* includes in addition to the country level surveys, a chapter on the European Union (together with the most important tax directives), as well as descriptions of seven of the most important Swiss cantons, i.e. Basel-Stadt, Bern, Geneva, Schwyz, Vaud, Zug and Zurich.

All the chapters of this book are also available in the online collection Country Surveys of the IBFD Tax Research Platform, which contains descriptions of the tax systems of 53 European countries and, in addition, descriptions of the tax systems of all 26 Swiss cantons. The online title is *European Tax Explorer (Plus)*. It also includes the texts of income tax treaties concluded by all European countries. The online collection Country Surveys has quarterly updates; the chapters are revised as new information becomes available.

More comprehensive coverage of the majority of the jurisdictions can be found in the online collection Country Analyses. A combination of Country Surveys, Country Analyses and the texts of income tax treaties concluded by countries worldwide is offered via the online title *Global Tax Explorer Plus* and regional subsets of this title on Africa, Asia-Pacific, Europe, Latin America and the Caribbean, and the Middle East. Countries in North America can easily be ordered via the online title *Tax Explorer – Country Select*, which enables you to choose the exact countries for which you need coverage on the essentials on international tax. It also offers the possibility to extend this with the very detailed Country Analyses on major economies like Canada and the United States.

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The following is regarded as taxable income (article 107 of the NTC):

- proceeds from the sale of goods and services;
- capital gains (*see* section 1.4.);
- dividends, royalties and interest; and
- rents and other similar payments.

The accrual method is used in calculating taxable income.

1.3.2. Exempt income

Domestic dividends received by resident companies from after-tax profits are exempt from corporate income tax (article 123 of the NTC). *See* section 2.2.

In addition, income from the sale of agricultural products and equipment for agricultural production (subject to certain limitations), from the sale of hand-made carpets and from the national film screening and advertising during such screening (until 31 December 2030) is exempt from corporate income tax.

1.3.3. Deductions

In principle, all expenses related to business operations of a taxpayer are deductible (article 110 of the NTC). Deductions are allowed in a tax year during which the corresponding income is generated. Expenses which were incurred in the previous tax year and are related to the taxable income of the current year are also deductible.

Expenses are deductible if they are duly substantiated.

1.3.3.1. Deductible expenses

Deductible expenses include in particular:

- costs of raw materials, fuel, energy, etc.;
- expenses on the repair and maintenance of fixed assets;
- advertising and sponsorship expenses;
- royalties;
- taxes (except corporate income tax), duties and other obligatory payments which are not subject to compensation, as well as conservation (ecological) payments by companies who use natural resources;
- employees' remuneration;
- service and management fees; and
- interest payments on loans or other borrowings (*see*, however, section 1.3.3.3.).

1.3.3.2. Non-deductible expenses

Non-deductible expenses include dividends, entertainment expenses and expenses related to exempt income (article 112 of the NTC).

1.3.3.3. Limited deductible expenses

The following expenses are deductible subject to limitations (articles 120 and 123 of the NTC):

- donations, up to 0.25% of gross income;
- expenses for foreign trips, up to 5% of gross income; and for local trips, per diems up to AMD 12,000 per day;
- interest paid for loans, up to the amount calculated by applying twice the official bank rate of the Central Bank of Armenia;

- interest paid for non-banking loans, (i) for companies, up to double the amount of net assets at the end of the calendar year and (ii) for bank and loan offices, up to nine times the amount of net assets at the end of the calendar year; and
- representative expenses, up to 0.5% of gross income, but not more than AMD 5 million.

1.3.4. Depreciation and amortization

Fixed assets and non-tangible assets are depreciated using the straight-line method (*see* section 1.3.4.1.) (article 121 of the NTC).

Before 1 January 2018, a “group method” of depreciation applied to fixed assets acquired (constructed) on or after 1 January 2014 (*see* section 1.3.4.2.).

Non-depreciable assets include land, museum collections, architectural monuments, works of art, constructions in progress, public roads, assets used for investment projects, items related to film archives, inventory and property that is fully deducted in the current year and publicly used property.

Depreciation is compulsory, even in loss-making years (*see* section 1.5.1.).

For certain categories of assets, accelerated depreciation is allowed.

In the case of disposal of assets, the surplus value of the disposed assets over their net book value is included in the aggregate annual income.

1.3.4.1. Straight-line depreciation

Straight-line depreciation may be taken at the following rates (article 121 of the NTC):

Type of asset	Rate (%)
Buildings and construction	5
Hotels	10
Assembly lines and automated equipment	33.33
Manufacturing equipment	20
Computers, other calculating devices and communication equipment	100
Other fixed assets	12.5

The depreciation period for intangible assets is established by a taxpayer on the basis of the expected useful life. If the expected useful life cannot be established, the depreciation is taken over a period of 10 years.

The right to use assets as part of a concession agreement is considered an intangible asset for purposes of corporate income tax.

Assets, whose value does not exceed AMD 50,000, may be depreciated in the first year of operation.

1.3.4.2. Group method depreciation (abolished from 2018 onwards)

Under the group method, depreciation could be taken at the following rates (article 12.1 of the former Corporate Tax Law):

Type of asset	Rate (%)
Buildings and construction	7.5
Hotels	15
Assembly lines and automated equipment	50
Computers and calculating devices	100
Other fixed assets	30

The depreciation period for intangible assets was established by a taxpayer on the basis of the expected useful life. If the expected useful life could not be established, the depreciation was to be taken over a period of 5 years.

1.3.5. Reserves and provisions

Generally, no deduction of amounts allocated to reserves and provisions is allowed, with a few exceptions.

A deduction is permitted for allocations to provisions for bad debts (article 123 of the NTC). Receivables recognized as bad debts are deductible up to the amount of recognized income from the sale of goods, performance of work or rendering of services, on the condition that they have not been paid within 1 year according to the limits set by government. Remaining debt can be deducted based on a court decision. The deductions should be supported by relevant documentation.

Insurance and reinsurance organizations can deduct amounts allocated to (re)insurance reserve funds.

Banks and organizations licensed to carry out certain types of banking transactions are also allowed to deduct provisions or reserves for similar bad and doubtful assets and contingent obligations.

1.4. Capital gains

There is no separate capital gains tax. Gains from the disposal of assets are included in the taxable income.

A capital gain may also arise upon:

- the disposal of depreciable assets;
- the disposal of non-depreciable assets;
- the transfer of an enterprise as a going concern;
- a transfer of non-depreciable assets as a contribution to the share capital of a company; and
- a disposal of non-depreciable assets as the result of reorganization through a merger, combination, demerger or division.

A capital gain is usually determined as the positive difference between the sales price and the historical cost.

1.5. Losses

1.5.1. Ordinary losses

Losses may be carried forward for up to 5 years (article 123 of the NTC). Losses derived from mergers, acquisitions and other transformations of a company may not be carried forward. No carry-back of losses is permitted. For foreign losses, *see* section 6.1.1.

Depreciation expenses are deductible in a loss-making year.

1.5.2. Capital losses

Capital losses on fixed business assets are deductible from ordinary business income.

1.6. Rates

1.6.1. Income and capital gains

Starting 1 January 2020 resident companies are taxed at a flat rate of 18%. Previously the corporate income tax rate was 20% (article 125 of the NTC). For investment funds, corporate income tax is levied at the rate of 0.01% of their net assets.

Armenia does not have a separate tax on capital gains. Capital gains are included in ordinary income and taxed accordingly.

For certain types of business activities, an alternative tax regime is available; *see* section 3.2. For reduced rates, *see* section 1.7.

1.6.2. Withholding taxes on domestic payments

Payments made to resident companies are not subject to withholding tax.

For rates on payments to non-residents, *see* section 6.3.1.

1.7. Incentives

1.7.1. Allowance for wages of disabled employees

Companies employing disabled persons are permitted to deduct 150% of the wages and other payments made to such employees (article 123 of the NTC).

1.7.2. Incentives for free economic zones

The annual income of a resident company in a free economic zone, or the operator of such a zone, is exempt from tax (article 126 of the NTC).

1.7.3. Incentives for listed public companies

Before 1 January 2013, companies whose shares are listed on the Armenian stock exchange were granted a 50% corporate income tax exemption, up to AMD 300 million per year, provided that (i) free float of shares was more than 20%, (ii) the number of shareholders exceeded 100, and (iii) the company had published financial reports according to IAS and IFRS standards.

1.7.4. Government-approved projects

Resident companies involved in business projects (excluding projects in the field of trade and finance) that are approved by governmental decree are granted a corporate income tax exemption equal to 100% of the salary paid for newly established jobs (article 127 of the NTC). The exemption cannot, however, exceed 30% of the corporate income tax payable for the current tax period.

The exemption applies for a period of five full reporting years following governmental approval.

1.7.5. Information technology (projects)

Resident companies involved in IT projects certified according to the Law of Armenia “[o]n IT sector state support” are granted a corporate income tax exemption for revenues from IT activities (article 8 of the CTL; this article from the former Corporate Tax Law is still in force for this exemption).

With effect from 8 April 2017, newly registered IT companies with up to 30 employees are exempt from corporate income tax for a period of 5 years. The salaries paid to the employees of these companies are taxed at a flat rate of 10%.

1.7.6. Renewable energy production

Licensed resident companies involved in production of electric energy from renewable sources are granted a corporate income tax exemption for revenues from electric energy sales (article 108 of the NTC).

The exemption applies to sales to licensed energy distribution companies.

1.7.7. Large exporters

Companies or groups of companies that:

- exclusively export goods and services;
- do not carry out business activities in the field of metal mining and the processing and sale of precious minerals and excisable goods;
- receive the sales proceeds in foreign currency in bank accounts held in Armenia; and
- have their business plans approved by the government before 1 January 2019,

are taxed at the following corporate income tax rates (article 128 of the NTC) until 31 December 2029:

- 5% if the annual exports of the company or the group of companies exceed AMD 40 billion; and
- 2% if the annual exports of the company or the group of companies exceed AMD 50 billion (on the whole amount exceeding the threshold).

1.8. Administration

1.8.1. Taxable period

The taxable period is the calendar year (article 129 of the NTC). Tax is levied on a current-year basis.

1.8.2. Tax returns and assessment

Companies are obliged to submit their tax returns and annual accounting reports by 20 April of the year following the reporting year (article 134 of the NTC). Books must be kept for a period of 5 years after the end of a financial year.

Corporate income tax is administrated through a self-assessment system.

1.8.3. Payment of tax

Companies must make advance payments every quarter of the year by the 20th day of the third month of each quarter (article 135 of the NTC). The advance payments are equal to 20% of the corporate income tax reported by a company for the previous tax year or 2% of the revenue reported by a company for the previous quarter, whichever is the least. Until the amount of corporate income tax for the previous year is assessed, the advance payments are equal to 20% of the corporate income tax in the last reported tax year.

Investment funds are exempt from the obligation to make quarterly advance payments.

The balance of tax due must be paid by 20 April of the year following the reporting year (article 136 of the NTC). Excess tax is refunded or set off against other tax liabilities of a company. If the company appeals an assessment, it may be permitted to postpone payment of outstanding taxes.

1.8.4. Rulings

No advance rulings may be obtained in Armenia.

2. Transactions between Resident Companies

2.1. Group treatment

There are no special rules for group taxation in Armenia.

2.2. Intercompany dividends

Domestic dividends received by a resident company are exempt from taxation (article 123 of the NTC).

For foreign-source dividends, *see* section 6.1.1.; for dividends paid to non-resident companies, *see* sections 6.2.1. and 6.3.1.

3. Other Taxes on Income

There is no local income tax or business tax on income in Armenia.

From 1 January 2018, the presumptive tax regime and the simplified tax regime for jewellers have been abolished. Below is a description of the regimes as they operated before that date.

Presumptive tax regime

The presumptive tax regime was mandatory for companies and individual entrepreneurs engaged in certain businesses (the organization of lotteries, the organization of gambling (casinos), car transportation and retail sales of fuel and gas). The presumptive tax, which was payable on a monthly basis, depended on factors specific to the taxpayer’s business activity, e.g. size of premises (territory) used, period of business activity, number of seats in a vehicle, etc. (“basic data”).

Simplified tax regime for jewellers

Sellers of precious metals, stones or jewellery, with an annual turnover not exceeding AMD 115 million could opt to pay licence fees instead of the turnover tax.

The amount of the licence fee depended on the size of the jeweller's shop and its location. In Yerevan, for example, the licence fee started from AMD 35,000 per shop.

3.1. Turnover tax regime

An optional turnover tax regime is available for businesses whose annual turnover does not exceed AMD 115 million (articles 254 and 455 of the NTC). The taxable base is the revenue derived by the business, and is due on a quarterly basis. The rates depend on the type of business activity, and are payable at the following rates:

Activity	Rate (%)
Trade	5
Recyclable materials sales	1.5
Newspapers sales by publishers	1.5
Manufacturing	3.5
Rent, interest, royalties, alienation of assets	10
Notary services	10
Lottery revenues	25
Catering and restaurant services	6
Other activities	5

Turnover taxpayers engaged in trading activities are eligible for a tax credit of 4% of the purchasing costs of the imported goods destined for trading activities. The amount of tax payable on income received from trading activities is subject to a minimum of 1.5% of the total trade turnover. The unused portion of the tax credit can be used in future tax periods.

Turnover taxpayers engaged in catering and restaurant activities are eligible for a tax credit of 3% of the purchasing costs of the imported goods destined for catering and restaurant activities. The amount of tax payable on income received from catering and restaurant activities is subject to a minimum of 4% of the total trade turnover.

Taxpayers engaged in the following types of business are not eligible for the turnover tax regime:

- producers or importers of excisable goods;
- banking, loan, insurance, and investment companies;
- security market participants, pawnshops, currency exchange offices;
- casinos and gambling offices; and
- auditing companies.

3.2. Micro company regime

An optional regime (the micro company regime) is available for businesses whose annual turnover does not exceed AMD 24 million (article 267 of the NTC). Such companies are exempt from regular taxation (including corporate income tax and VAT). Instead, a fixed monthly individual income tax payment of AMD 5,000 applies for each employee of the company.

Taxpayers engaged in the following types of business are not eligible for this tax regime:

- trade companies in Yerevan city;
- banking, loan, insurance, and investment companies;
- currency exchange offices and pawn shops;
- lotteries and gambling office (casinos); and
- auditing, consulting, accounting, legal, advertising, engineering, designer, marketing, data processing companies.

4. Taxes on Payroll

4.1. Payroll tax

No payroll tax is levied in Armenia.

4.2. Social security contributions

From 1 January 2013, social security contributions to be paid by employers are no longer due.

Contributions to the (state) pension fund are due by certain categories of employees. See Individual Taxation section 3.

5. Taxes on Capital

5.1. Net worth tax

There is no net worth tax.

5.2. Real estate tax

5.2.1. Land tax

Taxpayers of land tax are owners of land, as well as permanent or temporary users of land (article 1 of the LTL).

For agricultural land, the tax is levied at the rate of 15% of the cadastral net value of the land. For non-agricultural land, the rates range from 0.5% to 1% of the cadastral value.

Land tax is deductible for corporate income tax purposes.

5.2.2. Property tax

Taxpayers of property tax are individuals and companies which own property located in the territory of Armenia (article 3 of the ETL). Armenian governmental bodies, the Central Bank and local authorities are exempt from the tax.

The following property is subject to tax:

- houses, apartments, cottages, garages and other buildings;
- cars;
- motorcycles; and
- means of water transport.

Property of historical or cultural value is exempt. Trucks older than 20 years are also exempt.

The taxable base for buildings is the value of the building. The taxable base for cars, motorcycles and means of transportation is the engine power.

The annual tax rates for buildings are as follows:

- 0.3% on public buildings;
- 0.25% on industrial buildings;
- 0.2% on buildings used for parking of vehicles; and
- a progressive scale of up to 1.5% for cottages owned by individuals and on other buildings.

The annual rates for cars and means of transportation are as follows:

- for vehicles with ten seats or less: AMD 200 to 500 per horsepower and an additional AMD 1,000 per horsepower for each horsepower exceeding 150;
- for vehicles with more than ten seats: AMD 100 to 200 per horsepower;
- for motorcycles: AMD 40 per horsepower; and
- for water transport vehicles: AMD 150 per horsepower or AMD 204 per kWh.

If a motor vehicle is older than 3 years, the taxable base is reduced by an initial 10%, followed by a further 10% reduction for each additional year. The maximum deduction may, however, not exceed 50%.

Companies must submit quarterly property tax returns before the 25th day of the month following the reporting quarter. The payment of tax must be made within 5 days after submitting a tax return.

Property tax is deductible for corporate income tax purposes.

6. International Aspects

6.1. Resident companies

For the concept of residence, *see* section 1.2.1.

6.1.1. Foreign income and capital gains

Resident companies are subject to corporate income tax on their worldwide income. Foreign-source income, including capital gains, is fully taxable. Foreign interest and royalties are also included in the taxable income and fully taxable. Foreign-source dividends are exempt.

6.1.2. Foreign losses

Losses incurred by a foreign permanent establishment of an Armenian resident company are generally deductible for corporate income tax purposes at the level of the resident company.

6.1.3. Foreign capital

Foreign capital is not subject to land tax and property tax (*see* section 5.1.)

6.1.4. Double taxation relief

Armenia grants an ordinary credit for the foreign tax paid by companies on income from foreign sources (article 20 of the NTC). The credit cannot exceed the amount of tax assessable in Armenia in respect of the foreign-source income. Any excess may, however, be carried forward and set off against future corporate income tax liabilities.

Armenian tax treaties give tax credit relief for the tax incurred on foreign-source income. The credit is calculated on a per-country basis. For a list of tax treaties in force, *see* section 6.3.5.

6.2. Non-resident companies

Non-resident companies are legal entities (including partnerships) and enterprises without legal personality established outside Armenia.

6.2.1. Taxes on income and capital gains

Non-resident companies are subject to tax only on Armenian-source income, i.e. income from business activities carried out in Armenia. The following is considered as income derived from Armenian sources (article 104 of the NTC):

- business income (income from the supply of goods and services, intermediary activities, etc.); and
- passive income (dividends, royalties, interest, capital gains).

In principle, taxable income of non-residents is calculated and taxed according to the same rules and rates as for resident companies (*see* section 1.). All expenses related to business operations of a non-resident company in Armenia are deductible, with the exception of losses, dividends and assets disposed of without consideration. In addition, losses of a permanent establishment may not be carried forward.

Regarding capital gains, these are included in business income (and taxed as such) if the non-resident company has a presence in Armenia to which the gains can be allocated. If the non-resident company has no presence, such gains are subject to a withholding tax (*see* section 6.3.4.).

A non-resident carrying on a business in Armenia through a permanent establishment is subject to corporate income tax at the rate of 18% on income derived through that permanent establishment.

The definition of “permanent establishment” follows in general the definition in the OECD Model Convention, with some divergences.

Non-resident companies are subject to a final withholding tax provided that they do not operate in Armenia through a permanent establishment. However, dividends received by a permanent establishment are not exempt from withholding tax.

For withholding tax rates on dividends, interest and royalties, *see* section 6.3.

6.2.2. Taxes on capital

Land tax is payable by non-residents who own or use taxable plots of land in Armenia (*see* section 5.2.1.).

Non-residents who own property located in Armenia are subject to property tax (*see* section 5.2.2.).

6.2.3. Administration

The rules concerning the administration of taxes applied to non-residents are similar to those applicable to residents (*see* section 1.8., with some exceptions).

Non-resident companies are obliged to submit their tax returns and annual accounting reports by 20 April in the year following the reporting year (article 134 of the NTC):

Non-resident companies must make advance payments every 6 months and submit an annual tax return latest by 20 April of the year following the reporting year (article 134 of the NTC). Payment of income tax has to be made by 20 April of the year following the reporting year. A refund of tax is made within the same time.

6.3. Withholding taxes on payments to non-resident companies

6.3.1. Dividends

Dividends paid to non-resident companies are subject to a 10% final withholding tax (article 125 of the NTC), unless a tax treaty provides otherwise, in which case the withholding tax rate provided by the tax treaty applies. Dividends paid by the Panarmenian Bank are exempt from withholding tax.

6.3.2. Interest

A 10% final withholding tax applies to interest paid to non-resident companies (article 125 of the NTC), unless a tax treaty provides otherwise, in which case the withholding tax rate provided by the tax treaty applies.

Interest, bond coupon discounts, bond retirement and other similar income received by non-resident companies from Armenian government bonds that are denominated in foreign currency are exempt from withholding tax (article 125 of the NTC).

6.3.3. Royalties

Royalties are subject to a 10% final withholding tax (article 125 of the NTC), unless a tax treaty provides otherwise, in which case the withholding tax rate provided by the tax treaty applies.

6.3.4. Other

Insurance fees and freight payments are subject to a 5% final withholding tax. A 10% final withholding tax is levied on capital gains (if the recipient does not have a presence in Armenia, otherwise *see* section 6.2.1.) and rental income. Capital gains from sales of shares are exempt from withholding tax.

Any other income from Armenian sources is subject to a 20% withholding tax (article 125 of the NTC).

6.3.5. Withholding tax rates chart

This table provides the treaty withholding tax rates for dividend, interest and royalty. The corresponding domestic rates are also specified.

The treaty rate applies if a certificate of residence is presented. A refund of excess tax withheld is available upon request.

	Dividends		Interest ¹	Royalties
	Individuals, companies	Qualifying companies ²		
	(%)	(%)	(%)	(%)
Domestic Rates				
<i>Companies:</i>	10	10	0/10	10
<i>Individuals:</i>	5	n/a	10	10
Treaty Rates				
<i>Treaty With:</i>				
Austria	15	5 ³	10	5
Belarus	15	10 ⁴	10	10
Belgium	15	5 ³	10	8
Bulgaria	10	5 ⁵	5/10 ⁶	5/10 ¹⁰
Canada	15	5 ⁷	10	10
China (People's Rep.)	10	5	10	10
Croatia	10	0	10	5
Cyprus	5	0 ⁸	5	5
Czech Republic	10	10	5/10 ⁹	5/10 ¹⁰
Denmark	5/15 ¹¹	0/5 ¹²	5/10 ⁹	5/10 ¹³
Estonia	15	5	10	10
Finland	15	5	5	5/10 ¹⁴
France	15	5 ³	10	5/10 ¹⁰
Georgia	10	5	10	5
Germany	10/15 ¹⁵	7/15 ¹⁵	5 ¹⁶	6
Greece	10	10	10	5
Hungary	10	5	5/10 ⁹	5
India	10	10	10	10
Indonesia	15	10	10	10
Iran	15	10	10	5
Ireland	15	0/5 ¹⁷	0/5/10 ^{18,19}	5
Israel	15 ²⁰	0/5/15 ²¹	5	5/10 ¹⁴
Italy	10	5 ²²	10	7
Kazakhstan	10	10	10	10
Kuwait	5	5	5	10
Latvia	15	5	10	10
Lebanon	10	5	8	5
Lithuania	15	5	10	10
Luxembourg	15	5 ³	10	5
Malta	10	5	5	5
Moldova	15	5	10	10
Netherlands	15	0/5 ²³	5	5
Poland	10	10	5	10
Qatar	10	5 ⁵	5	5
Romania	10	5	10	10
Russia	10	5	10	0

	Dividends		Interest ¹	Royalties
	Individuals, companies	Qualifying companies ²		
	(%)	(%)	(%)	(%)
Serbia	8	8	8	8
Singapore	5	0	5	5
Slovak Republic	10	5	10	5
Slovenia	10	5	10	5
Spain	10	0 ²⁴	5	5/10 ¹⁰
Sweden	15	0/5 ²⁵	5 ²⁶	5
Switzerland	15	5 ²⁷	10	5
Syria	10	10	10	12
Thailand	10	10	-/10 ²⁸	15
Turkmenistan	15	5	10	10
Ukraine	15	5	10	0
United Arab Emirates	3	3	0	5
United Kingdom	10/15 ²⁹	0/5 ³⁰	5 ³¹	5

- Most tax treaties provide for an exemption for certain types of interest, e.g. interest paid to public bodies and institutions or in relation to sales on credit. These exemptions are not indicated in the table.
- Unless stated otherwise, the reduced treaty rates given in this column generally apply if the recipient company holds directly or indirectly at least 25% of the capital or the voting power, as the case may be, of the company distributing dividends.
- The rate applies if the recipient company holds at least 10% of the capital of the Armenian company.
- The rate applies if the recipient company holds at least 30% of the capital of the Armenian company.
- The rate applies if the capital invested by the recipient company exceeds USD 100,000.
- The lower rate applies to interest paid to a bank or financial institution.
- The rate applies if the Canadian company owns directly at least 25% of the capital of the Armenian company and the capital invested exceeds USD 100,000.
- The zero rate applies if the capital invested by the recipient company exceeds EUR 150,000.
- The lower rate applies, *inter alia*, to interest from bank loans.
- The lower rate applies to copyright royalties, including films, etc.
- Dividends distributed after 1 January 2020 derived by foreign citizens are subject to a withholding tax of 15%.
- The zero rate applies if (a) the Armenian company owns at least 50% of the capital in the Danish company and has invested more than EUR 2 million or its equivalent in Armenian or Danish currency into the capital of that company; or (b) the dividends are paid to Armenian State or its central bank, any national agency or any other agency or a financial institution) owned by Armenia. The 5% rate applies if the Armenian company owns at least 10% of the capital in the Danish company and has invested more than EUR 100,000 or its equivalent in Armenian or Danish currency in the capital of that company. The 5% rate applies if the Armenian company owns at least 10% of the capital in the Danish company and has invested more than EUR 100,000 or its equivalent in Armenian or Danish currency in the capital of that company.
- The 5% rate applies to royalties for computer software, patent, trade mark, design or model or plan, any secret formula or process, or for information concerning industrial, commercial or scientific experience (know-how); the 10% rate applies to royalties for copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting.
- The higher rate applies to copyright royalties, including films, etc.

- The 15% rate applies, *inter alia*, to distributions on certificates of an investment fund that are directly or indirectly connected to income from immovable property.
- A most favoured nation clause may be applicable with respect to interest.
- The zero rate applies if the recipient company has owned, directly or indirectly, at least 25% of the Armenian company's capital for at least 2 years. Conditions may apply. The 5% rate applies if the recipient company holds at least 10% of the capital of the Armenian company.
- The zero rate applies to interest paid to state or any institution wholly owned by the state. The 5% rate applies, *inter alia*, to interest paid to banks. The 10% rate applies in other cases.
- A most favoured nation clause may be applicable with respect to interest.
- The general rate is 15%. The 15% rate also applies to distributions made by real estate investment funds if the beneficial owner holds directly less than 10% of the capital of the company making the distributions.
- The 0% rate applies if the beneficial owner is (i) the other contracting state; (ii) the central bank of the other contracting state; or (iii) a pension fund which is a resident of the other contracting state and holds directly or indirectly less than 25% of the capital or voting power of the company paying the dividends. The 5% rate applies if the beneficial owner is a company (other than a partnership or a real estate investment fund) which holds directly at least 25% of the capital of the company paying the dividends. The 15% rate applies to distributions made by real estate investment funds if the beneficial owner holds directly less than 10% of the capital of the company making the distributions.
- The lower rate applies if the Italian company has owned directly at least 10% of the capital (totalling at least USD 100,000 or the equivalent in other currency) of the Armenian company paying the dividends for at least 12 months.
- The 5% rate applies if the Dutch company owns directly at least 10% of the capital in the Armenian company; the 5% rate is reduced to zero if the profits out of which the dividends are paid have been effectively subject to the normal rate of corporate income tax in Armenia and the dividends are exempt from tax in the hands of the recipient company in the Netherlands.
- The zero rate applies if the recipient company has owned, directly or indirectly, at least 25% of the Armenian company's capital for at least 2 years.
- The 0% rate applies if the receiving company holds at least 25% of the capital or voting power of the Armenian company for a period of at least 2 years. The 5% rate applies if the receiving company holds at least 10% of the capital or voting power of the Armenian company.
- A most favoured nation clause may be applicable with respect to interest.
- The rate applies if the Swiss company holds directly at least 25% of the capital of the Armenian company and the capital invested exceeds CHF 200,000.
- The 10% rate applies to interest paid to qualifying banking and financial institutions. The domestic rate applies in other cases (there is no reduction under the treaty).
- The 15% rate applies, under conditions, to dividends paid out of income derived directly or indirectly from immovable property by certain investment vehicles.
- The 5% rate applies if the UK company holds directly at least 25% of the capital of the Armenian company and the capital invested exceeds GBP 1,000,000. The zero rate applies if the beneficial owner of the dividends is a pension scheme.
- A most favoured nation clause may be applicable with respect to interest.

7. Anti-Avoidance

7.1. General

There is no general anti-avoidance provision.

7.2. Transfer pricing

On 1 January 2020, transfer pricing regulations entered into force (article 360-378 of the NTC).

The transfer pricing rules provide that companies must inform the State Revenue Committee by 20 April of the year following the reporting year of any controlled transactions made in a given calendar year if the total amount of controlled transactions exceeds AMD 200 million.

Controlled transactions include:

- supply of goods, sale of intangible assets and provision of services between a resident company and a non-resident related party;
- supply of goods, sale of intangible assets and provision of services between resident related parties, where at least one of the parties pays the mineral royalty tax or is entitled to tax incentives for corporate income tax, VAT or mineral royalty tax, or operates in a Free Economic Zone; and
- transactions between resident companies and companies registered in tax havens, regardless of whether they are related or not. The list of tax havens is approved by the government of Armenia.

If a company engages in a controlled transaction, then that transaction must be made at arm's length.

Parties are considered "related" if:

- one of the parties directly or indirectly controls business decisions of the other party, holds 20% or more shares in the other party's share capital, or the same party controls the business decisions of two or more parties or holds 20% or more shares in the other parties' share capital;
- one party is considered to manage/control the business decisions of another party, if it holds directly or indirectly 20% or more shares in the other party;
- one party is considered to manage/control the business decisions of another party, if one of the following conditions is met:
 - one party directly or indirectly controls the formation of the executive board or the board of directors of the other party;
 - the total amount of loans guaranteed and/or provided to the other party exceeds 51% of the net book value of the total assets of the other party;
 - more than 80% of one party's revenue (or expenses) in a tax year was received (incurred) from the supply of goods, works and the provision of services to the other party, except for revenue (expenses) and interest income (expenses) from rent and/or free-of-charge use of property, or alienation of intangible assets;
 - the parties concluded a joint venture agreement, whereby one party invested more than 50% of its assets in the joint venture; or
 - the parties concluded a contract for free-of-charge use of property (including property rental and lease agreements) for more than 1 year, and the value of such property exceeds 51% of the net book value of the total assets of the party using the property.

The transfer pricing rules provide for five methods to determine the fair market price:

- the comparable uncontrolled price method;
- the resale price method;
- the cost-plus method;
- the transactional net margin method; and
- the profit split method.

Companies are obliged to file transfer pricing documentation within 30 working days upon request from the tax authorities.

7.3. Limitations on interest deductibility

There are no specific limitations on interest deductibility. For other limitations on the deductibility of interest payments, *see* section 1.3.3.3.

7.4. Controlled foreign company

There is no CFC legislation.

7.5. Other anti-avoidance rules

7.5.1. Transactions with offshore companies

A special anti-avoidance provision applies in the case of transactions with offshore companies. The general corporate tax rate of 20% applies to prepayments for goods or fixed assets to offshore companies if these goods or fixed assets are not delivered within 1 year from the date of prepayment.

8. Value Added Tax

8.1. General

Value added tax (VAT) is levied on the supply of goods and services and on import of goods (article 60 of the NTC).

The VAT system is based on the destination principle, meaning that exports are relieved from VAT and imports are subject to VAT. The system is also based on the input tax deduction mechanism, meaning that, on balance, taxable persons effectively remit VAT to the authorities proportionate to their value added.

Specific regulations apply to import and export between the member states of the Eurasian Customs Union (*see* section 8.7.).

8.2. Taxable persons

All persons conducting business activities and registered for VAT purposes are subject to VAT (article 59 of the NTC). Companies and individual entrepreneurs are considered taxable persons for VAT purposes, and are obliged to register as such, if their annual taxable turnover exceeds AMD 115 million.

Non-trade organizations and individuals conducting business activities are considered taxable persons for

VAT purposes if their annual taxable turnover exceeds AMD 115 million.

The following persons are considered to be taxable persons (article 59 of the NTC):

- companies and individual entrepreneurs if they are not eligible for the turnover tax regime (*see* section 3.1.) on the first day of the reporting year; and
- companies and individual entrepreneurs who have ceased to be subject to the turnover tax regime.

For importation of goods, the importer is a taxable person, whether or not he conducts business activities.

8.3. Taxable events

Taxable transactions include the supply of goods and services, import of goods and supply of goods and services for private needs for no consideration (article 59 of the NTC).

A supply of goods is the transfer of goods under a contract for consideration. A supply of services is any transaction for consideration that is not a supply of goods, including a transfer of intangible property and a lease of movable or immovable property.

In the case of individuals, the supply of goods also includes the supply (for any kind of consideration) of the same type of property (such as apartments, buildings, land, vehicles and other property) in a quantity of more than one, within a period of less than 1 year after the acquisition of that property.

8.4. Taxable amount

The taxable amount is defined as the total sales price of all goods and services supplied by the taxpayer, including any other sums received from the person receiving the goods or services, excluding the VAT (articles 61 and 62 of the NTC).

The taxable amount of intermediary services is the amount of the fee paid for the services. If goods and services are supplied without consideration, the taxable amount is the market value of goods and services.

For the import of goods, the taxable amount is the customs value of goods, including customs and excise duties. In the case of a reimportation of goods that have been exported to be processed abroad, the taxable amount is the consideration for the processing.

Excise duties to be paid by the acquirer have to be included in the taxable amount, as well.

For goods imported from other Member States of the Eurasian Economic Union (*see also* section 9.4.), the taxable amount is the customs value of goods (including excise duties) as calculated by importers. The VAT is then remitted to the tax authorities by the importer.

8.5. Rates

The standard rate of VAT is 20% (article 63 of the NTC).

The zero rate of VAT applies to the following goods and services (article 65 of the NTC):

- exported goods and services;
- supplies of goods and services to embassies for official purposes; and
- transit of foreign freight through the territory of Armenia.

8.6. Exemptions

The following supplies of goods and services are not subject to VAT in Armenia (article 64 of the NTC):

- educational services and books;
- scientific research work;
- newspapers and magazines;
- financial services;
- management and deposit services of investment funds;
- humanitarian and charitable assistance;
- securities transactions;
- hand-made carpets and raw materials for their production;
- transactions involving licences, patents and copyrights;
- works of art;
- in-kind contributions to share capital made by individuals;
- supplies of goods and services within the free economic zones;
- supplies of services to the organizer and operator of free economic zones;
- the return of purchased assets, construction of assets, replacement of assets and improvement of assets in the framework of a concession agreement;
- agricultural, horticultural or forestry machinery for soil preparation or cultivation; lawn or sports ground rollers;
- harvesting or threshing machinery, straw or fodder balers, grass or hay mowers, machines for cleaning, sorting or grading eggs, fruit or other agricultural produce;
- milking machines and dairy machinery;
- other agricultural, horticultural, forestry, poultry-keeping or bee-keeping machinery, including germination plants fitted with mechanical or thermal equipment, poultry incubators and brooders;
- tractors;
- fertilizers;
- insecticides, fungicides, herbicides, disinfectants and other similar items; and
- import and sale of electric vehicles until 1 January 2024.

8.7. Non-residents

If a foreign entrepreneur fails to register for VAT purposes, an Armenian VAT payer who acts on his behalf (e.g. through a commissionaire agreement or by auction sales) or is a recipient of the supply is deemed to be the supplier of goods and services in Armenia and is liable to VAT arising from the transaction. The taxable amount is the price of goods and services, excluding VAT.

From 1 January 2022, non-resident electronic service providers without a permanent establishment in Armenia supplying services to Armenian resident individuals must register with the Armenian tax authorities on the official website of the State Revenue Committee. The government will issue a resolution providing the list of online services.

Goods and services imported to Armenia from a member state of the Eurasian Customs Union are subject to VAT in Armenia. The importer must self-report and pay the VAT to the Armenian tax authorities.

Good and services exported from Armenia to a member state of the Eurasian Customs Union are subject to a zero VAT rate.

There is no VAT refund procedure for non-residents.

9. Miscellaneous Taxes

9.1. Capital duty

There is no capital duty or similar duty on the formation and expansion of capital of companies.

9.2. Transfer tax

There are no taxes on the transfer of immovable property, securities, etc.

9.2.1. Immovable property

Not applicable.

9.2.2. Shares, bonds and other securities

Not applicable.

9.3. Stamp duty

No stamp duties or similar duties are levied.

9.4. Customs duty

On 1 January 2015, Armenia acceded to the Eurasian Economic Union, and as such joined the Eurasian Customs Union. Its customs duty rates are stated in the Customs Code of the Customs Union of the Eurasian Economic Union. Armenia is, however, under a preferential regime, allowed to apply its national customs duty rates (i.e. those that were effective before 1 January 2015) to more than 800 articles.

The taxable base is the customs value of goods, which is equal to the purchase price and transportation costs incurred up to the Armenian border. Essential goods such as raw materials are exempt from customs duty. No customs duty is levied on exports.

Import of goods from Member States of the Eurasian Economic Union is exempt from customs duty.

9.5. Excise duty

Subject to excise duty are resident and non-resident companies, as well as individuals who produce or import certain goods in Armenia.

The taxable base is the volume of taxable goods (litre or kilogram amount). Both for imported and for domestic products there are established unified tax rates.

The following goods are exempt from the excise duties:

- exported goods;
- goods imported by individuals if their aggregate value does not exceed a certain limit; and
- goods temporarily imported into the customs territory of Armenia.

Taxpayers must submit monthly tax returns only with respect to goods produced in Armenia. The returns have to be submitted by the 15th day of the month following the reporting month.

The excise duty for goods imported into Armenia is to be paid within 10 days after the importation. The excise duties for goods produced in Armenia are payable by the 15th day of the month following the reporting month.

For goods imported from other Member States of the Eurasian Economic Union, the taxable base is the customs value of goods.

Armenia

Individual Taxation

Abbreviations

Abbreviation	English definition	Armenian definition
ETL	Property Tax Law	Գույքահարկի մասին օրենք
NTC	Tax Code of Armenia	Հայաստանի Հանրապետության Հարկային Օրենսգիրք
LTL	Land Tax Law	Հողի հարկի մասին օրենք

Introduction

Individuals are subject to individual income tax. Other major taxes to which individuals are subject include real estate taxes. In certain circumstances, individuals may be subject to VAT and excise duty (*see* Corporate Taxation sections 8. and 9.5., respectively). A turnover tax regime is available to individual entrepreneurs (*see* Corporate Taxation section 3.1.).

Armenian tax legislation does not include a definition of the territory of Armenia, nor are there areas to which the description does not apply. In practice, the definition included in the Armenian tax treaties is followed. According to this definition, the territory of the Republic of Armenia means the Republic of Armenia, and when used in the geographical sense it means the territory over which the Republic of Armenia exercises its sovereign rights and jurisdiction under its internal legislation and in accordance with international law.

On 1 January 2018, the New Tax Code (NTC) entered into force, which replaced all previously applicable tax laws, and became a single consolidated tax document governing the taxation in Armenia.

With effect from 1 January 2014, the New Law on Saving Pension entered into force, under which individuals born on or after 1 January 1974 have to make mandatory contributions to private pension plans at rates of 5% to 10% (*see also* section 1.3.3.).

A ring-fencing regime applies to individual entrepreneurs that are subject to the micro company regime (*see* Corporate Taxation section 3.2.).

The currency is the Armenian dram (AMD).

The tax and customs authorities with the State Revenue Committee of Armenia are responsible for the administration and collection of taxes.

1. Individual Income Tax

Armenia operates a national income tax that is levied on the worldwide income of its resident taxpayers. Taxable income is generally subject to progressive rates.

1.1. Taxable persons

An individual is deemed to be a resident if he is present in Armenia for a period exceeding in the aggregate 183 days in the tax year starting or ending in any 12-month period, or if his centre of vital interests is situated in Armenia (article 25 of the NTC). The centre of vital interests is the place where the family and economic interests of an individual are concentrated (the place where the home, the personal or family capital and/or the family are located).

Resident taxpayers are taxable on their worldwide income (article 141 of the NTC).

Partnerships are subject to corporate income tax (article 22 of the NTC); the individual partners are not subject to individual income tax on their share in the profits.

Spouses are taxed separately.

1.2. Taxable income

1.2.1. General

The taxable income is the positive difference between the gross income and the deductible expenses.

Gross income is the total income derived by the taxpayer during a taxable period. The following types of income is included in the gross income (article 144 of the NTC):

- employment income (salaries and wages);
- royalties and interest;
- business income; and
- income from leasing.

Payments in a foreign currency are converted into national currency (AMD) at the official exchange rate at the date of receipt. Payments in kind are valued at prices regulated by the state if applicable and otherwise at the market value.

1.2.2. Exempt income

The following types of income are exempt from individual income tax (article 147 of the NTC):

- allowances paid by the state;
- all types of retirement benefits (pensions, including pensions received from foreign sources), excluding pension payments for voluntary pension plans;

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